SHADOW REVIEW OF THE 2021 TO 2023

NATIONAL BUDGET EXECUTION IN LIGHT OF DEBT LANDSCAPE IN ZAMBIA REPORT

SUBMITTED BY:

Sosten Banda (Lead Consultant)
Richard Kampamba (Associate Consultant)

| August 2024

This publication was made possible by the support of the
Friedrich-Ebert-Stiftung (FES) Zambia Office.

SHADOW REVIEW OF THE 2021 TO 2023 NATIONAL BUDGET EXECUTION IN LIGHT OF DEBT LANDSCAPE IN ZAMBIA REPORT

SUBMITTED BY:

Sosten Banda (Lead Consultant)
Richard Kampamba (Associate Consultant)

This publication was made possible by the support of the
Friedrich-Ebert-Stiftung (FES) Zambia Office.

FRIEDRICH EBERT STIFTUNG

Table of Contents

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

CI	Composite Indicator
CSOs	Civil Society Organizations
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
GDP	Gross Domestic Product
IBP	International Budget Partnership
IEC	Information Education Communication
IMF	International Monetary Fund
IR	Inception Report
JCTR	Jesuit Centre for Theological Reflection
LADA	Law and Development Association
LIC-DSF	Debt Sustainability Framework for Low Income Countries
M&E	Monitoring and evaluation
MoFNP	Ministry of Finance and National Planning
NGO	Non-governmental Organisation
OECD	Organization for Economic Co-operation and Development's Development
DAC	Assistance Committee
ToR	Terms of reference
TWG	Technical Work Group
UNZA	University of Zambia
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WFP	World Food Programme
ZMW	Zambian Kwacha

Acknowledgments

We would like to express our sincere gratitude to Jesuit Centre for Theological Reflection (JCTR) through its Social and Economic Development Programme for their guidance and input throughout the study. Furthermore, the Consultancy Team would like to thank the interviewees from various state and non-state actors for their availability. Moreover, we would like to thank everyone who supported this study and assisted the team in any way possible to obtain the necessary information.

Valuable comments and inputs on the report were greatly provided by members of the technical team of the Jesuit Centre for Theological Reflection comprising the Programme Manager of the Social and Economic Development Programme, Ms. Muchimba S. Siamachoka.

We would like to thank everyone who helped with setting up appointments, proof reading and finalizing of this important Report.

Disclaimer

The opinions expressed in this report are those of the Consultancy Team, and do not necessarily reflect those of the Jesuit Centre for Theological Reflection. Responsibility for the opinions expressed in this report rests solely with the authors. Publication of this document does not imply endorsement by the Jesuit Centre for Theological Reflection of the opinions expressed. All the information captured during the study remains the property of the Government and non-state actors and will be shared and kept by JCTR as the custodian of all property, including intellectual property. The use of the information and data must be only with the consent of the communities through the JCTR.

Executive Summary

Introduction

Budget credibility is vital for maintaining stakeholder confidence, ensuring transparency, accountability, and efficient use of resources. It is a critical measure of a government's commitment to its fiscal plans and policy commitments. When budgets are credible, they facilitate better planning and implementation of public services, leading to improved social and economic outcomes. Conversely, deviations from the budget can undermine trust and hinder development efforts. In recent years, Zambia has faced significant challenges related to public debt, which have profound implications for budget execution. Debt servicing consumes a large portion of the national budget, limiting resources available for critical sectors such as education, health, and social protection. This strain on fiscal space complicates efforts to maintain budget credibility, as competing demands for limited funds can lead to deviations from planned allocations. High debt levels often necessitate austerity measures and resource reallocation, which can undermine social welfare and economic growth. This creates a cycle where increased borrowing leads to higher debt servicing costs, further reducing funds for development spending. The principal objective of the consultancy was to conduct a thorough review of national budget execution in light of Zambia's debt landscape.

Methodology

The study used a qualitative multi-pronged approach to generate the requisite information. It used both primary and secondary data collected through Key Informant Interviews (KIIs) and desk reviews. The data was collected using a Key Informant Interviews (KII) semi-structured interview guide. Data was purposively collected. The findings were arrived at using qualitative data analysis such as: transcribing, editing, categorization; summarization, description, interpretation, quotation and word clouding to present the findings. Tables and figures were also used to present the findings.

Findings

Review of National Budget Execution (2021-2023):

Budget Allocations: The budget allocations for the Health, Education, and Social Protection sectors in Zambia have shown significant nominal and total national budget share increases from 2021 to 2023. Specifically, Health increased from K9.7 billion (8.1%) in 2021 to K17.4 billion (10.4%) in 2023, Education from K13.8 billion (11.5%) in 2021 to K23.1 billion 13.9%) in 2023, and Social Protection from K4.8 billion (4%) to K8.13 billion (4.9%) in 2023. Despite these increases, the budget shares as a percentage of the total national budget for Health (10.4% in 2023) and Education (13.9% in 2023) still fall short of the international commitments set by the Abuja Declaration (15%) and the Incheon Declaration (20%).

Supplementary appropriations: There was a consistent Upward Trend in Supplementary appropriations from 2021 to 2023 resulted in increased absolute budget values for the Education, Health, and Social Protection sectors, with a uniform significant increase in 2021 (33%) and more modest increases in 2022 (1%) and 2023 (7%) across all the sectors. The 33% supplementary budget variation in 2021 for the Education, Health, and Social Protection sectors was notably above the 15% minimum standard Public Expenditure and Financial Accountability (PEFA) benchmark, indicating a significant adjustment in budget allocations beyond standard expectations. However, the supplementary budget variations of 1% in 2022 and 7% in 2023 across these sectors were within the PEFA benchmarks for best and good practices, respectively, which are set at 5% and 10% respectively. These variations indicate a more controlled and predictable budget adjustment process in the latter years. Nevertheless, these increases in absolute terms, the percentage shares of these sectors in the total national budget remained stable, indicating consistent prioritization by the government.

Funds Disbursement: Disbursement rates across the Education, Health, and Social Protection sectors were consistent each year, averaging between 77% and 89% from 2021 to 2023. This indicates that, despite increasing allocations and disbursements, no sector achieved a 100% disbursement rate, reflecting partial utilization of funds.

Budget Execution: During the period under review, both budget-based and disbursement-based execution rates for the Education, Health, and Social Protection sectors showed a uniform positive trend across the sectors in the respective fiscal years. Specifically, Budget-based execution rates improved from 75.61% in 2021 to 87.73% in 2023. This, however, shows that there was still estimated 24% and 12% budget underspent across the three sectors in 2021 and 2023 respectively. Disbursement-based execution rates on the other hand remained high, increasing from 97.15% in 2021 to 98.59% in 2023. This consistency in high disbursement-based execution rates implies that, despite not fully receiving the total allocated budget, the funds that were disbursed in all the sectors were almost entirely spent, pointing to effectiveness and efficiency in the utilization of funds once available.

Public Debt Landscape

Debt Structure and Trends: Zambia's public debt has experienced significant changes, with domestic debt rising sharply from K193 billion in 2021 to K232.6 billion in 2023 (20.2% increase). External debt also grew modestly, increasing from $13.04 billion in 2021 to $14.5 billion in 2023 (11.6% increase). This shows that the country has shifted its borrowing patterns, relying more on domestic debt and multilateral loans, which saw substantial increases, while external debt and commercial debt remained relatively stable.

Fiscal Deficit: Zambia's fiscal deficit decreased significantly from 14.4% in 2020 to 5.7% in 2023 during the period under review, indicating sustained and improved fiscal consolidation.

Debt Servicing Impact: Zambia's debt servicing, which fluctuated between 24% and 28% of national expenditure, had an inconsistent impact on budget execution. While high debt servicing in 2020 constrained spending on key sectors, reductions in debt servicing in 2021 and 2022 did not consistently increase allocations, nor did a rise in debt servicing in 2023 reduce spending in education, health, or social protection. This suggests that other factors, such as grants and revenue generation, also significantly influence sector expenditures.

 1 https://internationalbudget.org/wp-content/uploads/SAI-Handbook-Chapter-3-1.pdf

Debt Servicing Impact: Zambia's debt servicing, which fluctuated between 24% and 28% of national expenditure, had an inconsistent impact on budget execution. While high debt servicing in 2020 constrained spending on key sectors, reductions in debt servicing in 2021 and 2022 did not consistently increase allocations, nor did a rise in debt servicing in 2023 reduce spending in education, health, or social protection. This suggests that other factors, such as grants and revenue generation, also significantly influence sector expenditures.

Impact Assessment:

Socio-Economic Impact and Effectiveness of Budget Execution: Despite improved budgetary allocations and disbursement rates for key sectors like health, education, and social services, discrepancies between actual and NDP target budgets led to varying performance outcomes. For instance, education and health sectors faced inefficiencies and fluctuating target achievement, while social protection experienced significant funding inconsistencies.

Effectiveness of Budgetary Allocations: Budget allocations often exceeded NDP targets, but effectiveness varied, with some sectors under performing in target achievements due to misalignment and inefficiencies. This indicates challenges in achieving intended development outcomes despite higher allocations.

Conclusion

The review of Zambia's national budget execution from 2021 to 2023 reveals a positive trend in budget allocations to Health, Education, and Social Protection, despite falling short of international benchmarks. Budget allocations for Health increased from K9.7 billion (8.1%) in 2021 to K17.4 billion (10.4%) in 2023, Education from K13.8 billion (11.5%) in 2021 to K23.1 billion (13.9%) in 2023, and Social Protection from K4.8 billion (4%) to K8.13 billion (4.9%) in 2023. However, the budget shares for Health (10.4% in 2023) and Education (13.9% in 2023) remain below the Abuja Declaration (15%) and the Incheon Declaration (20%) targets. The findings indicate a consistent upward trend in supplementary appropriations, particularly in 2021 with a 33% increase, though the variations moderated to 1% in 2022 and 7% in 2023. Disbursement rates averaged between 77% and 89%, and budget-based execution rates improved from 75.61% in 2021 to 87.73% in 2023, while disbursement-based execution rates remained high, increasing from 97.15% in 2021 to 98.59% in 2023. This demonstrates effective and efficient fund utilization once disbursed.

However, public debt remains a challenge, with domestic debt rising by 20.2% from 2021 to 2023 and external debt increasing by 11.6%. Despite a significant reduction in the fiscal deficit from 14.4% in 2020 to 5.7% in 2023, debt servicing continues to exert pressure on budget execution. The impact of debt servicing on sectoral allocations was inconsistent, highlighting the need for sustainable debt management. The socio-economic impact assessment revealed that improved budgetary allocations and disbursement rates did not consistently translate into target achievements. The education sector achieved 28% of its targets in 2021, 61.60% in 2022, and 48% in 2023. The health sector met 38% of its targets in 2021, 85% in 2022, and 33% in 2023. Social protection targets were met at 47% in 2021, 63.29% in 2022, and 48% in 2023. This indicates inefficiencies and misalignments between allocations and actual performance, necessitating improvements in budget planning and execution.

All in all, while Zambia has made strides in increasing budget allocations to key sectors and improving fiscal policy compliance, the effectiveness of these allocations in achieving desired outcomes remains varied. Moving forward, Zambia should focus on aligning budgets with international commitments, enhancing fund utilization efficiency, and managing debt sustainably to support long-term economic stability and development.

Key Recommendations

Continue Prioritizing the Social Sectors: To meet international commitments and further enhance the impact of social sectoral budgets, Zambia should continue to incrementally increase the budget shares for Health and Education. Additionally, implementing robust domestic resource mobilization national budget base to consequently increase resource allocation based on the proportion allocation international benchmark. Zambia should also possibly consider shifting from proportional sectoral budget allocation benchmark to other benchmark like the per capital sector allocation and expenditure which are more comprehensive.

Minimize Budget Variations to Internally Accepted Levels: Though positive supplementary budget appropriation would be welcome to address immediate funding needs or gaps in the priority sectors, government should continue to ensure that supplementary budget adjustments are within acceptable benchmarks to enhance fiscal discipline and maintain budget credibility. Additionally, maintaining transparent and predictable budget processes and comprehensive planning process will help in sustaining the trust and confidence of stakeholders in the government's fiscal management.

Strengthen Budget Planning and Monitoring: in order to avoid significant deviation of the planned and actual expenditure, there is a need to enhance forecasting accuracy, use of robust data analytics to improve revenue and expenditure forecasts.

Enhance Efficiency in the Disbursement and Utilization of Resources: To further improve budget utilization and reduce underspending, the government should address the factors causing delays or inefficiencies in the disbursement and allocation processes. Enhancing the timeliness and completeness of fund disbursements will help ensure that the full budget is utilized effectively, thereby maximizing the impact of resources in the Education, Health, and Social Protection sectors.

Enhance Public Debt Management: To stabilize its fiscal situation and manage debt effectively, Zambia should quickly finalize the debt restructuring process while focusing on controlling domestic debt growth. Strengthen the implementation of the new legal, policy and institution framework of public debt management to manage borrowing and ensuring that new multilateral loans are used efficiently will be crucial for maintaining fiscal sustainability and economic stability.

Continue Balancing Debt Servicing and Financing off Key Social Sectors: Government should continue managing debt obligations carefully while prioritizing investments in essential sectors. Improving debt management strategies and enhancing revenue generation will be crucial to balancing debt servicing with adequate funding for education, health, and social protection, ensuring sustainable long-term development and economic stability.

Improve Budget Alignment with NDP Targets: Ensure better alignment between budget allocations and NDP targets to enhance sector performance. Stabilize funding levels to address inconsistencies and inefficiencies and implement mechanisms to monitor and adjust allocations effectively to meet development goals and improve sector outcomes.

Strengthen Budget Planning and Monitoring: in order to avoid significant deviation of the planned and actual expenditure, there is a need to enhance forecasting accuracy, use of robust data analytics to improve revenue and expenditure forecasts. Regular implementation of monitoring and evaluation mechanisms will track performance against NDP targets and adjust budget allocations accordingly to address under funding issues.

1.0 Introduction

Just like in many other countries, the national budget is a crucial economic tool in Zambia, outlining the allocation of public resources to achieve economic and social development goals. It serves as a blueprint for economic and social priorities, guiding the implementation of policies and programs that drive growth, equity, and sustainability. However, the mere allocation of resources through the national budget is not the ultimate goal; rather, budget credibility, the effectiveness of these allocations in achieving intended outcomes is paramount.

Budget credibility is vital for maintaining stakeholder confidence, ensuring transparency, accountability, and efficient use of resources. It is a critical measure of a government's commitment to its fiscal plans and policy commitments. When budgets are credible, they facilitate better planning and implementation of public services, leading to improved social and economic outcomes. Conversely, deviations from the budget can undermine trust and hinder development efforts. In recent years, Zambia has faced significant challenges related to public debt, which have profound implications for budget execution. Debt servicing consumes a large portion of the national budget, limiting resources available for critical sectors such as education, health, and social protection. This strain on fiscal space complicates efforts to maintain budget credibility, as competing demands for limited funds can lead to deviations from planned allocations. High debt levels often necessitate austerity measures and resource reallocation, which can undermine social welfare and economic growth. This creates a cycle where increased borrowing leads to higher debt servicing costs, further reducing funds for development spending.

Given this context, it was imperative to conduct a thorough review of national budget execution in light of Zambia's debt landscape.

2.0 Context

The Government of the Republic of Zambia conducted a Debt Sustainability Analysis (DSA) in 2023 to assess the sustainability of Zambia's public debt in the context of the International Monetary Fund (IMF) program's macroeconomic framework without assuming any restructuring arrangements. The DSA was conducted using the IMF/World Bank revised Debt Sustainability Framework for Low Income Countries (LIC-DSF). Under this framework, Zambia's debt carrying capacity is classified as weak due to its Composite Indicator (CI) score of 2.6 thereby informing the applicable thresholds to assess Zambia's debt burden indicators. A five-year historical analysis of public and publicly guaranteed debt shows a steady rise in both absolute terms and as a percentage of Gross Domestic Product (GDP) to US $27,132.33 million (94.8 percent of GDP) at the end of 2022 from US $16,241.35 million (61.38 percent of GDP) in 2018. The external DSA indicates breaches in all four external debt burden indicators from their respective thresholds. Notably, the present value of external debt service to revenue peaks at 61 percent in 2024 and remains significantly above its 14 percent threshold during the observation period. Similarly, the present value of external debt service-to-exports ratio peaks at 26 percent, in 2024 and remains above its 10 percent threshold until 2029. The public DSA also shows a significant breach of the present value of public debt to GDP which remains above the recommended threshold of 35 percent throughout the projection period. In this regard, Government is actively engaged in debt restructuring efforts aimed at restoring the sustainability of its public debt. Simultaneously, Government aims to enhance Zambia's debt-carrying capacity through ongoing economic management and fiscal governance policy initiatives designed to stimulate economic growth and boost foreign currency reserves. As part of the Medium-Term Debt Strategy (2023-2025) and the ongoing debt restructuring process, Government has prioritized domestic debt financing, with focus on expanding the investor base for Government securities, particularly in longer-term instruments, to mitigate refinancing risks. On the international front, the focus remains on securing concessional loans characterized by low interest rates and extended maturity periods to alleviate the debt servicing burden.

During the period 1st January 2022 to 31st March 2024, the legacy arrears reduced by 15.4 percent from K59.45 billion to K50.32 billion. Out of the total net movement, actual payments amounted to K17.66 billion while adjustments made post end December 2021 for legacy arrears, amounted to K8.53 billion. While progress was made towards dismantling of the legacy arrears, it was also observed that some category of arrears continued to increase in subsequent years, reflecting the need to further strengthen commitment controls and generate the fiscal space to settle these arrears. New arrears that were accumulated between 1st January 2022 and 31st March 2024 amounted to K26.14 billion including external contractor arrears arising from cancellation of loans under external debt restructuring. Value Added Tax (VAT) refund arrears accounted for the largest share of the total payments made at K3.51 billion, followed by Compensation and Awards at K2.28 billion. With regards to the total stock adjustment, fuel subsidies arrears accounted for the largest share with an increase of K13.31 billion, followed by personal emolument arrears which reduced by K3.40 billion. The increase in fuel arrears was on account of late payment interest charges which continue to accrue on the outstanding amount. The total stock of domestic arrears, therefore, stood at K88.65 billion as at 31st March 2024.

On June 26, 2024, the IMF Executive Board concluded the third review and approved augmentation of the arrangement (by 30 percent of quota, raising the envelop from $1.3 billion to $1.7 billion). This decision gave Zambia access to an additional SDR 433.34 million (about US$569.6 million), bringing the total IMF financial support disbursed under the arrangement to SDR 852.98 million (about US$1.1 billion). Zambia's 38-month Extended Credit Facility (ECF) supported arrangement is based on the Zambian's homegrown Eighth National Development plan. The program supports the authorities' policies and reforms to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth with the aim to improve the livelihood of the Zambian people. Specifically, it helps address Zambia's most pressing macroeconomic challenges: Restoring debt and fiscal sustainability through fiscal adjustment and debt restructuring, creating room in the budget for much-needed social spending, advancing structural reforms, including strengthening governance and reducing the risk of corruption, and improving public financial management. The deal, which accounts for US$6.3 billion of Zambia's external debt, includes extending the repayment period by over 12 years with a three-year grace period during which only interest payments are due. The deal also unlocked a further US$189 million of concessional loans from the International Monetary Fund (IMF) as part of its three-year support programme. Zambia's external debt, excluding publicly guaranteed external debt, was US$14.07 billion at the end of June 2023.

2 https://internationalbudget.org/wp-content/uploads/SAI-Handbook-Chapter-3-1.pdf

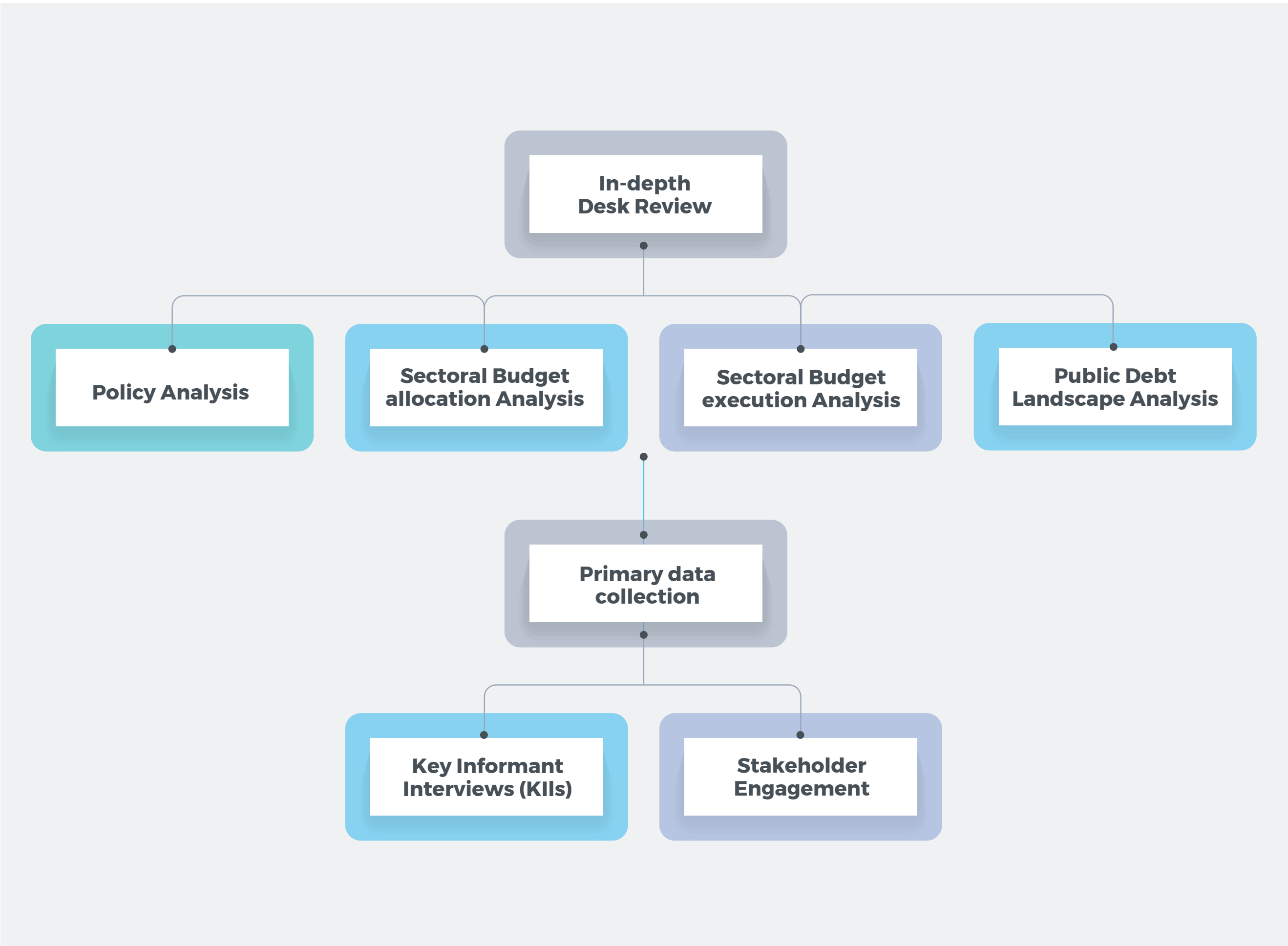
The restructuring will give Zambia some much-needed fiscal space and is expected to reduce external debt servicing to 14% of revenues by 2025. The savings from the debt restructuring were expected to be diverted towards social sectors such as health and education. Government also needs to renegotiate its debt with private creditors, including Eurobond holders, if it is to make all its external debt sustainable.

A key objective of the reform program in Zambia supported by the IMF is to gradually increase the level and improve the quality of social spending to reduce poverty and inequality. It also aims to improve access to basic public services, especially in rural areas. The Fund-supported program accommodates the much-needed increase in spending in education and health, including extending free education to all and hiring over 41,000 additional health and education workers since 2021.Spending on social protection is projected to more than triple from 0.7 percent of GDP in 2020 to 2.3 percent in 2024. Additional external support will help finance a temporary expansion of emergency social cash transfers, with existing beneficiaries temporarily receiving double the current transfer value. Other social protection programs are also being expanded, including programs to mitigate food insecurity, keep girls in school, and the scaling up of the school feeding program from Early Childhood Education to Secondary Education in about thirty-seven affected districts. The Government has also proposed to initiate a limited Cash for Work Programme in the revised budget to enhance the purchasing power of households in districts impacted by the drought, in addition to restoring community infrastructure and improving access to key services.

3 https://www.mofnp.gov.zm
4 Ibid

3.0 Methodology

The study methodology was anchored on a robust analytical framework that considers the multifaceted aspects of budget execution, debt sustainability, and policy analysis. The study utilised both quantitative and qualitative research methods to gather comprehensive data, ensuring a balanced and thorough analysis. Specifically, our methodology encompassed the following key components: the International Monetary Fund (IMF) as part of its three-year support programme. Zambia's external debt, excluding publicly guaranteed external debt, was US$14.07 billion at the end of June 2023.



5 https://www.pwc.com/zm/en/assets/pdf/pwc-zambia-budget-bulletin-2024.pdf
6 https://www.elibrary.imf.org/view/journals/002/2022/292/article-A001-en.xml

1. In-Depth Desk Review

a. **Policy Analysis:** conducted a thorough desk review of national development plans and specific sector investment plans that influence budget allocations and execution.

b. **Sectoral Budget Allocation Analysis:** Comprehensive scrutiny of the allocated specific sector budgets for Zambia for the fiscal years 2021, 2022 and 2023. This analysis utilized the National Estimates of Revenue and Expenditure/National Budgets to delve into specific budget allocations. This assessed the effectiveness of budgetary allocations in achieving intended outcomes as well as compliance to international commitments.

c. **Sectoral Budget Execution Analysis:** Evaluation of the implementation of budgetary allocations in education, health and social sectors for the fiscal years 2021, 2022 and 2023. This analysis utilized end of year financial reports to delve into specific sector budget execution, assessing the alignment of budget execution with national development goals as well as identifying discrepancies between planned and actual expenditures.

d. **Public Debt Landscape Analysis:** This analysis utilized quarterly debts statistics bulletins, national budget debt service allocation trends, public investment plans, annual borrowing plans, Zambia IMF ECF agreement and Zambia official creditors restructuring agreement to review Zambia's debt structure, including domestic and international debt, to understand its composition and dynamics; assess the impact of debt servicing on budget execution and the availability of funds for critical sectors and evaluate the sustainability of current debt levels and their implications for future budget execution.

2. Primary Data Collection

a. **Key Informant Interviews (KIIs):** Key stakeholders were engaged through structured KIIs. This included officials from the Ministry of Finance and respective sector ministries (health and education).

b. **Stakeholder Engagement:** In addition to direct interviews with government officials, key stakeholders such as Civil Society Organizations (CSOs) and Non-Governmental Organizations (NGOs) were actively engaged. Insights was gathered to identify gaps in budget implementation and impact of public debt to solicit recommendations for improvement and ensure effective utilization of public resources and fiscal sustainability.

3.1 Data Recording, Processing, Analysis and Presentation

The responses of stakeholders during KIIs were recorded by note taking and also audio recorded to ensure accurate capture of information. These were typed in a simple format that captured the key words. The primary data collected were analyzed using qualitative data analysis methods such as; transcribing, editing, coding, categorization; summarization, description, interpretation, quotation. The review also used word processor and word crowding to give a clear picture on key words or phrases that were most prominent and most recommended. The data was organized into headlines and were triangulated with findings from the literature review and context analysis. Quantitative data was collected from secondary sources were analyzed using SPSS or Stata software in the form of tables and/or graphically.

4. Findings

1.0 2021 to 2023 National Budget Execution

1.1 Implementation of Budgetary Allocations in Education, Health and Social Sectors.

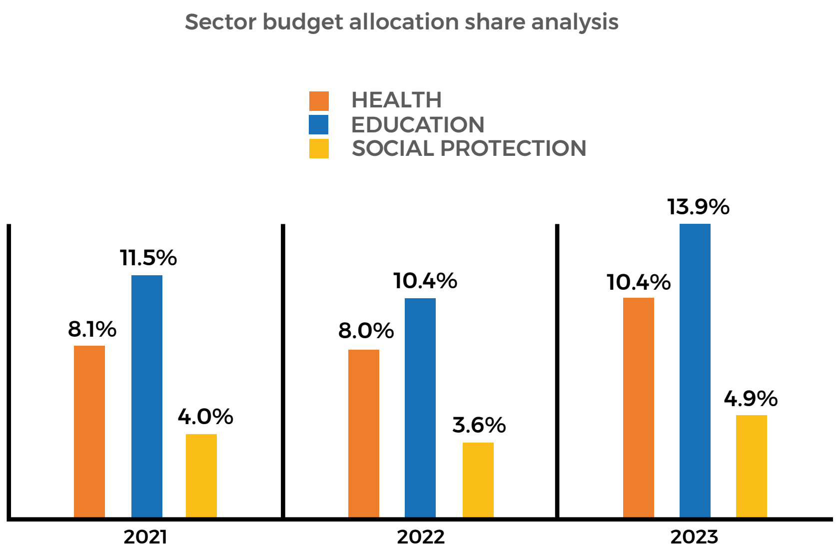
4.1.1.1 Budget Allocations Analysis.

The budget allocation trend analysis for Zambia's Health, Education, and Social Protection sectors from 2021 to 2023 showed an increase in both nominal values and sector share terms. In nominal terms the health budget allocation increased from K9.7 Billion in 2021 to K13.9 Billion in 2022 and later to K17.4 Billion in 2023. In terms of sector budget share to the total national budget, the Health sector's share was relatively stable at 8.1% in 2021 and 8.0% in 2022, before significantly increasing to 10.4% in 2023. This upward trend shows a growing prioritization of health; however, the budget allocation still remains below the 15% 2001 Abuja Declaration commitment.

In the Education sector, the budget allocation in nominal terms increased from K13.8 Billion in 2021 to K18.1 Billion in 2022 and to K23.1 Billion in 2023. Nevertheless, percentage share initially decreased from 11.5% in 2021 to 10.4% in 2022 but then saw a significant rise to 13.9% in 2023. This increasing trend indicates an enhanced focus on education, nevertheless just like the health sector the budget allocation towards the education during the period under review shows the budget allocation falls short of the aspirations of the Education 20230 Incheon Declaration and Framework for Action Towards Inclusive and Equitable Quality Education and Lifelong Learning for All which require 20% of the total national budget to be allocated towards the education sector. Nevertheless, the rising allocation demonstrates Zambia's commitment to improving its education system.

Similarly, the Social Protection sector nominal allocations increased from K4.8 Billion in 2021 to K6.3 Billion and to K8.13 Billion in 2023. In terms of sector share, Social Protection sector experienced a slight decline from 4.0% in 2021 to 3.6% in 2022, followed by an increase to 4.9% in 2023. No withstanding other challenges with social protection, the budget allocation for the sector during the period under review was above the 3% international benchmark for social protection. Additionally, the upward trend shows a positive step towards supporting vulnerable populations through social safety nets, which is crucial for promoting social equity and stability. Overall, the budget allocation trends for these sectors from 2021 to 2023 shows a positive trajectory but still below the international commitments.

Figure 1: Sector Budget Allocation (2021 - 2023)



Sources: Constructed by Consultants from Ministry of Finance and National Planning yellow books

4.1.1.2 Supplementary Appropriation

Table 1: Supplementary Budget Trend Analysis (2021 - 2023)

Sector	2021					2022					2023				
	Budget	Revised Budget	% Change	% sector share of the total national budget		Budget	Revised Budget	% Change	% sector share of the total national budget		Budget	Revised Budget	% Change	% sector share of the total national budget	
				Budget	Revised Budget				Budget	Revised Budget				Budget	Revised Budget
Education	13,755.84	18,238.64	33%	11.50%	11.50%	17,990.66	18,225.23	1%	10.40%	10.40%	23,257.72	24,804.52	7%	13.90%	13.90%
Health	9,688.90	12,846.35	33%	8.10%	8.10%	13,838.97	14,019.41	1%	8.00%	8.00%	17,401.46	18,558.78	7%	10.40%	10.40%
Social Protection	4,784.64	6,343.87	33%	4.00%	4.00%	6,227.53	6,308.74	1%	3.60%	3.60%	8,198.76	8,744.04	7%	4.90%	4.90%

Sources: Constructed by Consultants from Ministry of Finance and National Planning Economic and Financial Reports

Table 2: Supplementary Budget Trend Analysis (2021 - 2023)

	2021		2022		2023	
	% sector share of the total national budget	% sector share of the total national Expenditure	% sector share of the total national budget	% sector share of the total national Expenditure	% sector share of the total national budget	% sector share of the total national Expenditure
Education	11.5%	11.5%	10.4%	10.4%	13.9%	13.9%
Health	8.1%	8.1%	8.0%	8.0%	10.4%	10.4%
Social Protection	4.0%	4.0%	3.6%	3.6%	4.9%	4.9%

Sources: Constructed by Consultants from Ministry of Finance and National Planning Economic Reports

Article 203 of the Constitution empowers the finance minister to present supplementary appropriations to the National Assembly, allowing adjustments to the original budget. During the period under review, these supplementary appropriations resulted in increased allocations for the Education, Health, and Social Protection sectors. An analysis of these adjustments reveals a consistent upward trend in absolute budget values across all three sectors, with stable percentage shares of the total national budget.

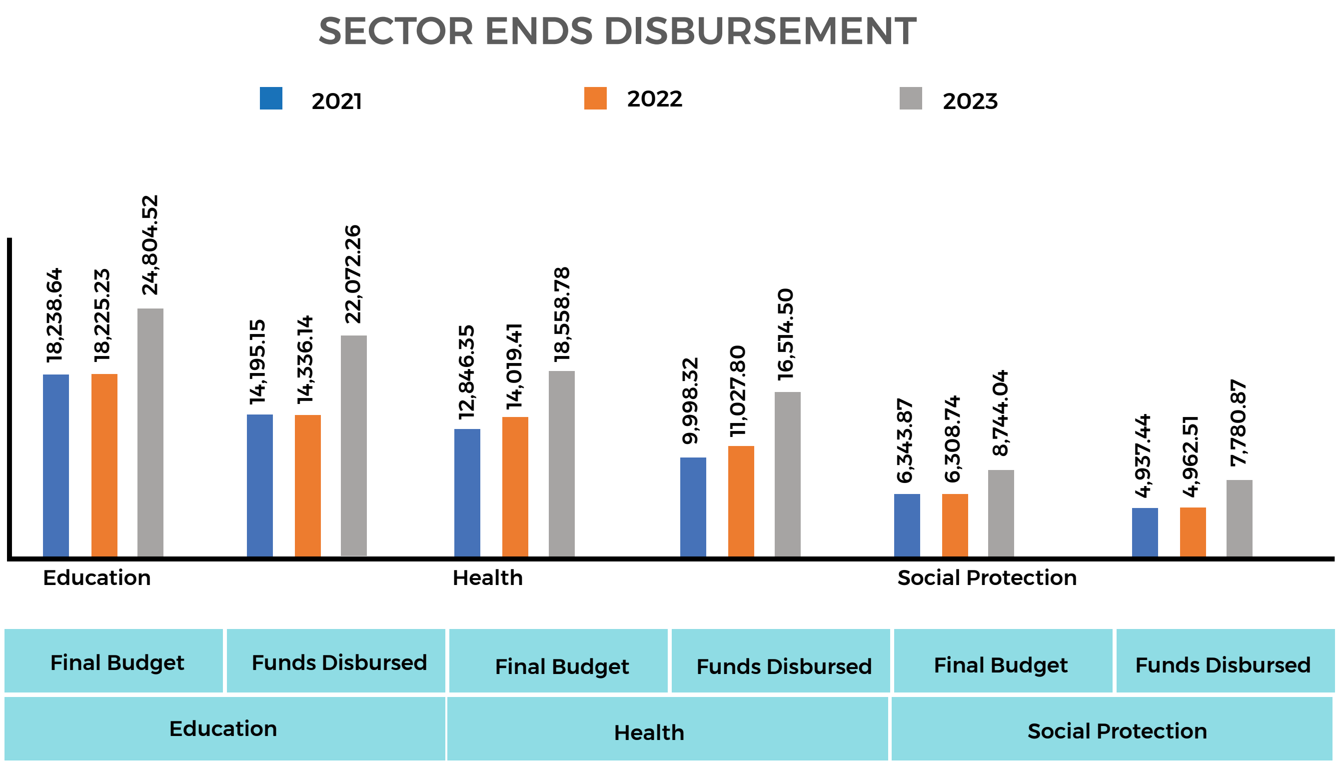
As shown in Table 1 above, in 2021, the Education sector's budget was revised upward from 13.76 billion Kwacha to 18.24 billion Kwacha, representing a 33% increase. Despite this significant increase, the sector's share of the total national budget remained constant at 11.5%. The health sector similarly saw its budget rise from 9.69 billion Kwacha to 12.85 billion Kwacha, also a 33% increase, maintaining an 8.1% share of the national budget. The Social Protection sector's budget increased from 4.78 billion Kwacha to 6.34 billion Kwacha, again a 33% rise, with its sector share holding steady at 4.0%. In 2022, the adjustments were more modest. The Education budget increased marginally from 17.99 billion Kwacha to 18.23 billion Kwacha, a 1% increase, with the sector share remaining at 10.4%. The health sector's budget also increased slightly from 13.84 billion Kwacha to 14.02 billion Kwacha, a 1% rise, maintaining its 8.0% share of the national budget. The Social Protection sector saw a slight increase from 6.23 billion Kwacha to 6.31 billion Kwacha, holding its 3.6% share. By 2023, the budgets for the sectors experienced more substantial increases. The Education budget rose from 23.26 billion Kwacha to 24.80 billion Kwacha, a 7% increase, resulting in an increased sector share of 13.9%. The health budget similarly increased from 17.40

billion Kwacha to 18.56 billion Kwacha, a 7% rise, with the sector share increasing to 10.4%. The Social Protection sector's budget increased from 8.20 billion Kwacha to 8.74 billion Kwacha, a 7% rise, resulting in a sector share of 4.9%.

Throughout the three-year period, the sector shares of the total national budget remained unchanged, even after supplementary budget changes. This stability in sector shares, despite significant absolute increases in budget allocations suggests that the government maintained a consistent prioritization of the sectors, ensuring that they received appropriate funding relative to the overall fiscal landscape.

4.1.1.3 Functional Classification Sector Funds Disbursement

Figure 2: Funds Disbursement (2021 - 2023)



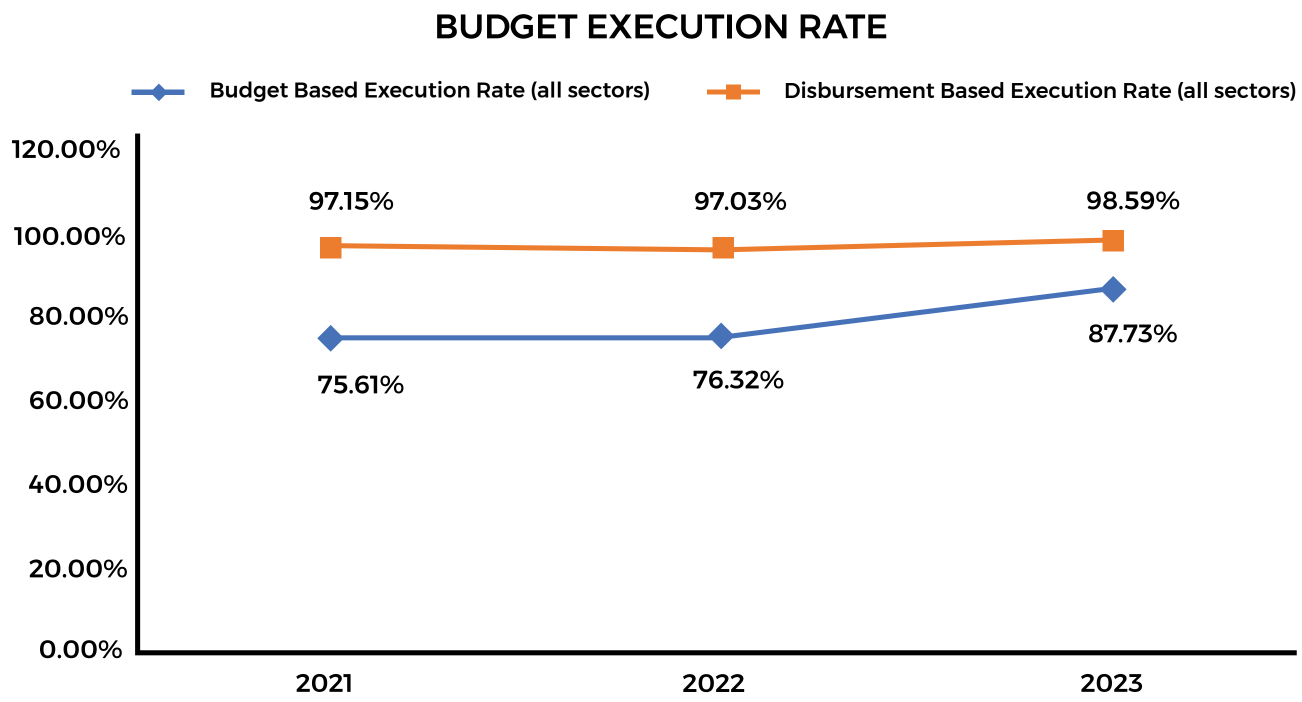
Sources: Sources: Constructed by Consultants from Ministry of Finance and National Planning Economic Reports

The analysis shows that during the period under the education sector received K14.1 Billion from the K18.2 approved budget in 2021. Likewise, the sector received education sector received K14.3 Billion from the final budget of 18.2 and a K22 Billion from a budget of K24.8 Billion in 2022 and 2023 respectively. For the health sector, only K9.9 Billion was disbursed from the approved budget of K12.8 Billion while K11 Billion was disbursed from approved budget of K14 Billion and K16.5 Billion from the budget of K18.5 Billion in 2022 and 2023 respectively. Social protection on the other hand received K4.9 Billion from K6.3 Billion in 2021, K4.9 Billion from K6.3 Billion in 2022 and K7.7 Billion from the approved budget of K8.7 Billion in 2023.

A peculiar trend was noted, as the disbursement rate across all sectors showed remarkable similarity each year: 77.83% in 2021, 78.66% in 2022, and 88.98% in 2023. This uniformity in disbursement rates across sectors in each fiscal year was attributed to proportionate disbursements based on the allocations in the national budget, according to the Ministry of Finance. The analysis also established that despite the consistent increase in both budget allocations and actual disbursements from 2021 to 2023, none of the sectors achieved a 100% disbursement rate, indicating that allocated funds were not fully utilized in any of these year.

4.1.2. Sector Budget Execution

Figure 3: Budget Based Execution Rate versus Disbursement Based Execution Rate (2021 - 2023)



Sources: Constructed by Consultants from Ministry of Finance and National Planning Financial Reports

The analysis of budget and disbursement-based execution rates across the Education, Health, and Social Protection sectors from 2021 to 2023 reveals a positive trend in both budget allocation and fund utilization. Furthermore, just like disbursement rates, all the three sectors exhibited similar both the budget based and disbursement-based execution rates in the respective financial years.

Nevertheless, both execution rates exhibited positive trends with budget-based execution rate moving from 75.61% in 2021 to 87.73% in 2023. It is, however, worth noting that marginally decreased in 2022 at 76.32% from 75.61 in 2021. Likewise, the disbursement based exhibited similar trends, in 2021, the disbursement-based execution rates for all three sectors were at 97.15%, indicating that nearly all the disbursed funds were used. This figure slightly decreased in 2022 to 97.03% but rebounded in 2023 to an impressive 98.59%. This consistency in high disbursement-based execution rates implies that, despite not fully receiving the total allocated budget, the funds that were disbursed in all the sectors were almost entirely spent, pointing to effectiveness and efficiency in the utilization of funds once available.

The analysis further established that despite under disbursement and under spent of funds the budget execution share was maintained as per initial allocation share as shown in the table below. The consistency between the budgeted and actual expenditure shares across all sectors suggests that there were no significant deviations during budget implementation, indicating that these sectors were not deprioritized. The observed significant increases in 2023, particularly for Education and Health, may reflect a strategic focus on these areas, possibly in response to evolving needs or policy shifts aimed at enhancing public services. On this shift, a key Informant had this to say:

" There is limited fiscal space and climate change Climate change being identified as one of the major threats to sustainable development in Zambia as evidenced through climate induced hazards such as drought and prolonged dry spells, seasonal and flash floods and extreme temperatures, however provision of services like health, education and social protection remain priority areas for the Government."

Allocation budget sector share vs Expenditure sector share

	2021		2022		2023	
	% sector share of the total national budget	% sector share of the total national Expenditure	% sector share of the total national budget	% sector share of the total national Expenditure	% sector share of the total national budget	% sector share of the total national Expenditure
Education	11.5%	11.5%	10.4%	10.4%	13.9%	13.9%
Health	8.1%	8.1%	8.0%	8.0%	10.4%	10.4%
Social Protection	4.0%	4.0%	3.6%	3.6%	4.9%	4.9%

Sources: Constructed by Consultants from Ministry of Finance and National Planning Financial Reports

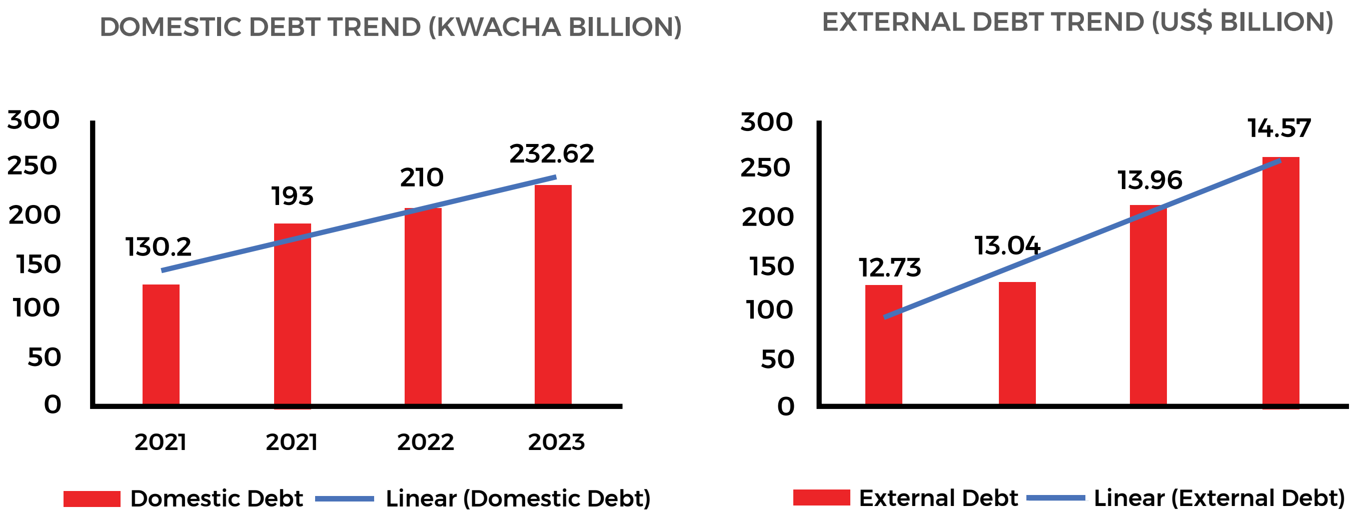
4.2. Public Debt Landscape

4.2.1. Zambia's Public Debt Structure and Trend Analysis

Zambia has been battling debt distress since 2019 when IMF warned that Zambia's debt had reached unsustainable levels. Following its 2020 default as the first African nation unable to meet its sovereign debt obligations, Zambia embarked on an aggressive debt restructuring journey. This effort commenced with a US$1.3 billion IMF Extended Credit Facility in August 2022, followed by a landmark $USD 6.3 billion debt treatment agreement with official creditors under the G20 Common Framework. More recently, Zambia secured a $USD 3.5 billion agreement with bondholders. With just $USD 3.0 billion pending restructuring with other commercial lenders, Zambia is now on a promising path towards debt restructuring and fiscal sustainability. Nevertheless, the analysis established that during the period under review Zambia experienced notable changes in its public debt profile, marked by significant increases in both external and domestic debts. External debt grew from 12.73 billion Kwacha in 2020 to 13.04 billion Kwacha in 2021, representing a 2.4% increase. In contrast, domestic debt surged dramatically from 130.2 billion US Dollars in 2020 to 193 billion US Dollars in 2021, reflecting a substantial 48.2% increase.

The increase in public debt was due to a significant increase in domestic debt through issuance of Government securities for Budget Support, as well as the continued disbursements on already contracted public external loans and contraction of new significant loans, notably the US$ 1.3 Billion IMF extended Credit Facility.

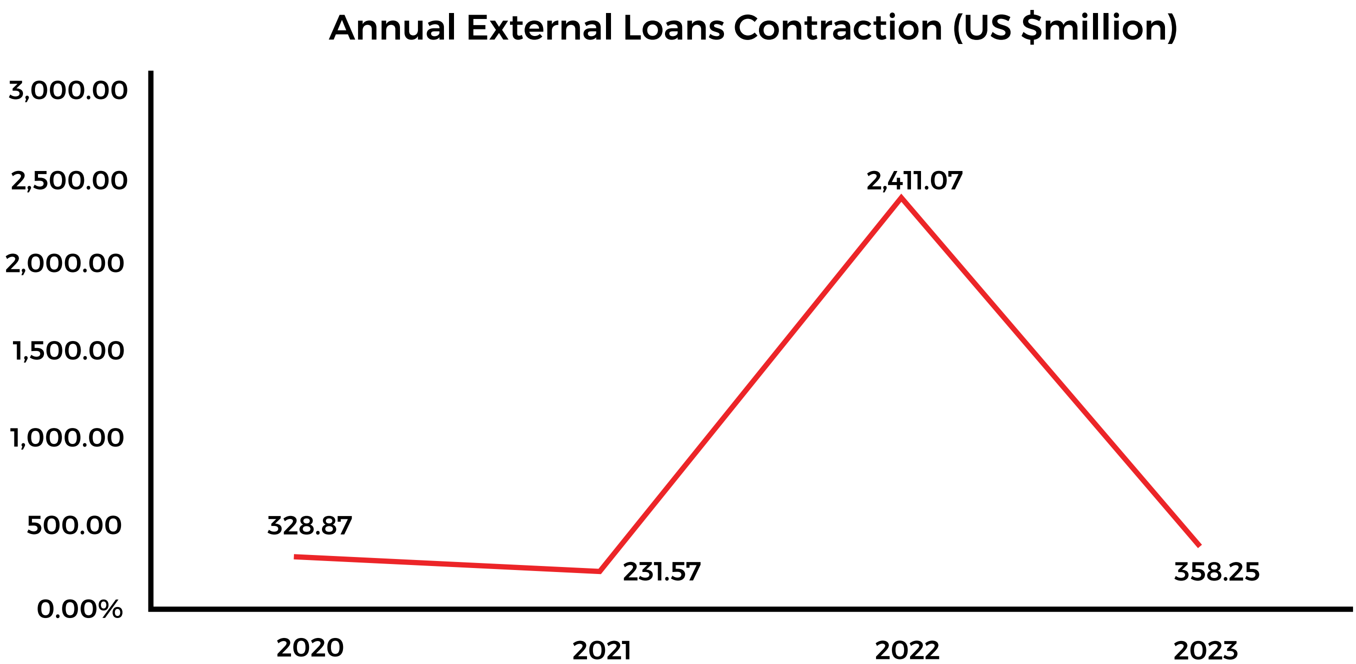
Figure 4: Domestic and External Debt Trends Analysis (2020 - 2023)



Sources: Sources: Constructed by Consultants from Ministry of Finance and National Planning Economic and financial Reports

As shown in Figure 5 below, in 2020, the Zambia contracted US$ 328.87 million in new external loans, which decreased to US$ 231.57 million in 2021, possibly reflecting efforts to control borrowing or challenges in securing new financing. However, 2022 witnessed a surge to US$ 2.41 Billion mainly due to the contraction of the US$ 1.3 Billion IMF extended credit facility. In 2023, the level of new external loans contracted dropped to 358.25 million US Dollars, higher than the 2020 and 2021 levels, suggesting a stabilization at a higher borrowing level post-2022.

Figure 5: Annual External Debt Contraction (2020 - 2023)



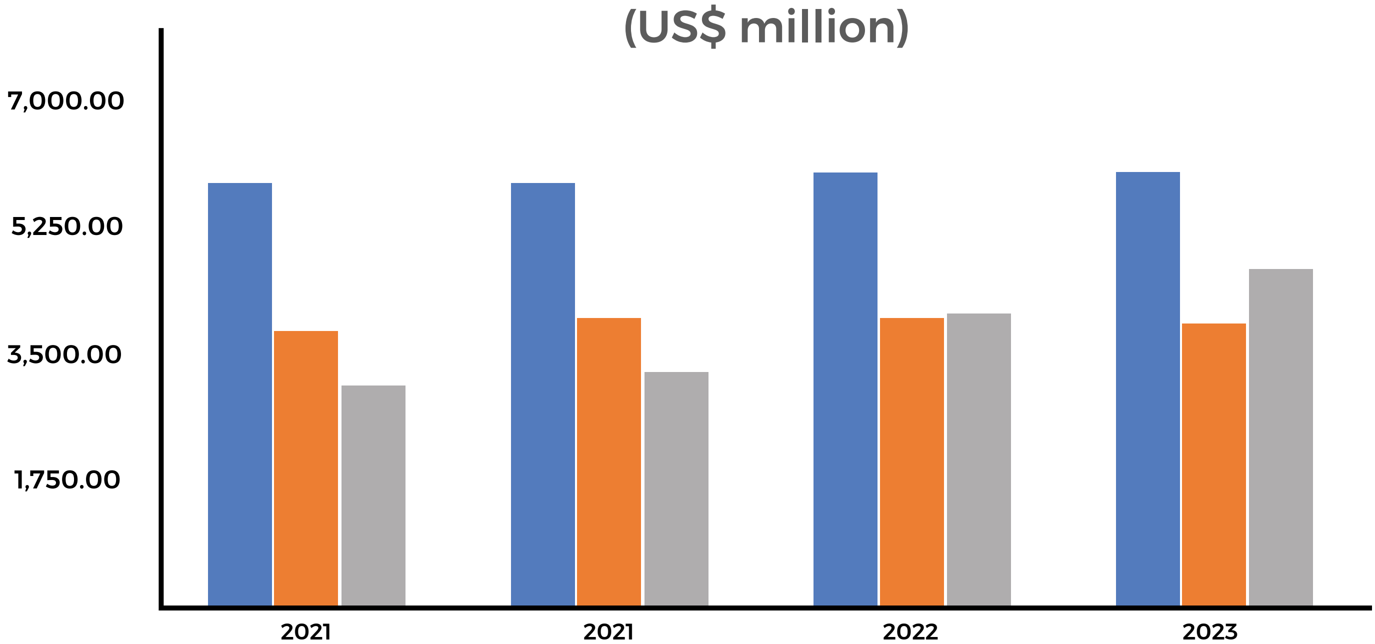
Sources: Constructed by Consultants from IMF & Ministry of Finance and National Planning Economic Reports

It worth noting that the sharp rise in the domestic debt compared to steady rise in external debt underscores the country's increasing reliance on internal sources to finance its public spending needs. Furthermore, the composition of Zambia's external debt also during the period under review shows shift in borrowing patterns. Commercial debt experienced minimal fluctuation, increasing slightly from US$ 5.85 million US Dollars in 2020 to US$ 5.8 Billion in 2021, and then to US$ 6 Billion in 2022, before slightly decreasing to 5.9 billion US Dollars in 2023. This pattern indicates limited new commercial loan contraction, with the overall level remaining relatively stable.

Bilateral debt, on the other hand, saw more significant changes. It increased from US$ 3.8 Billion in 2020 to 3.91 billion in 2021, a 2.38% rise, indicating ongoing and potentially new bilateral agreements. However, bilateral debt slightly decreased to US$ 3.9 Billion US Dollars in 2022 before rising again to US$ 3.93 Billion US Dollars in 2023. This fluctuation suggests a dynamic landscape of bilateral agreements with periodic adjustments in borrowing levels. The most significant changes occurred in multilateral debt. From US$ 3.1 Billion US Dollars in 2020, it rose to US$ 3.2 Billion US Dollars in 2021, marking a substantial increase of 6.64%. This upward trend continued with a significant jump to US$ 4 Billion in 2022 and further to US$ 4.7 Billion in 2023. This consistent and substantial increase suggests a higher incidence of new loans from multilateral institutions, reflecting more favourable terms or urgent financing needs being addressed through these channels.

Overall, the period under review shows that while commercial debt remained stable, Zambia increased its reliance on bilateral and multilateral sources, with the latter seeing the most significant growth. This shift highlights the country's strategic preference for multilateral loans, likely due to better terms and conditions, which are essential for Zambia's economic stability and development amidst fiscal challenges.

EXTERNAL DEBT COMPOSITION (US$ million)

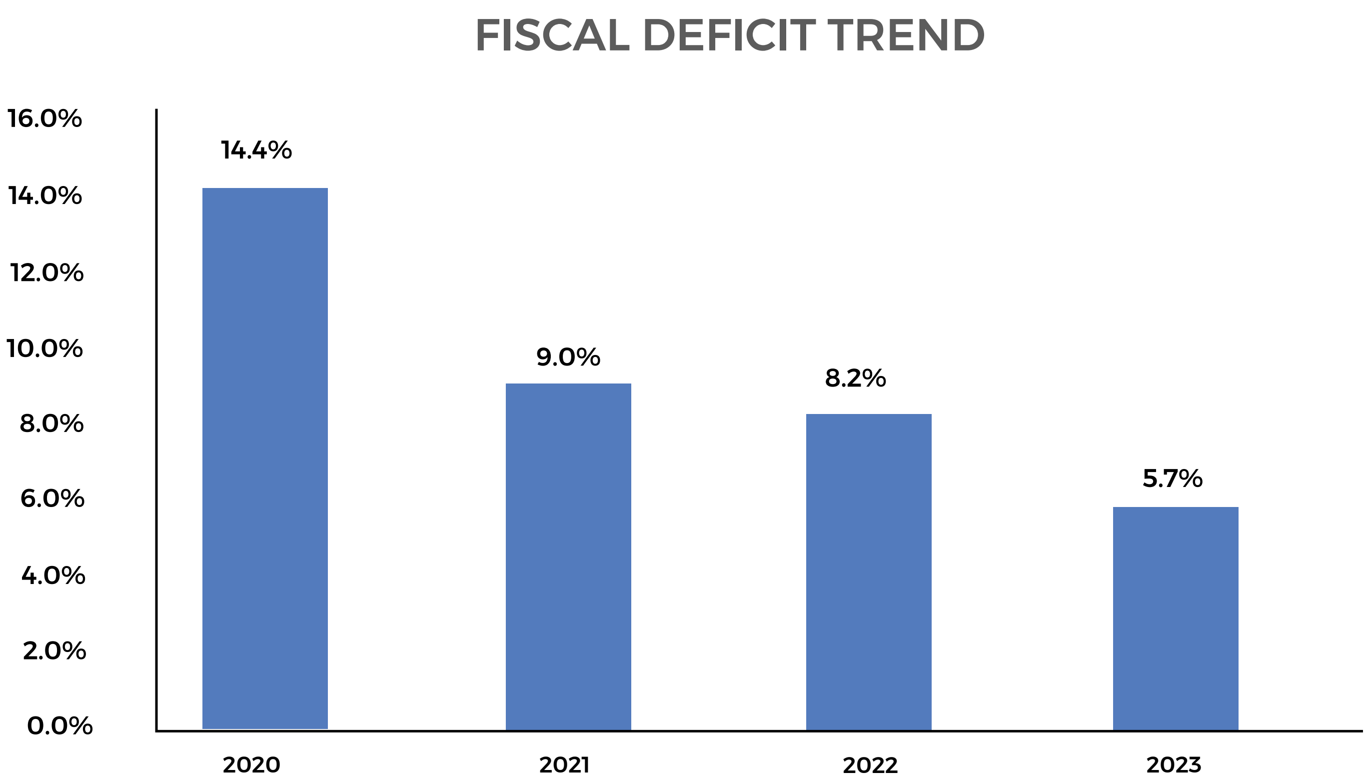


Sources: Constructed by Consultants from IMF & Ministry of Finance and National Planning Economic Reports

4.2.2. Fiscal Deficit Trends Analysis

Zambia's fiscal deficit showed a significant downward trend during the period under review, , indicating improved fiscal consolidation. In 2020, the deficit was 14.4%, driven by economic challenges, including the COVID-19 pandemic. By 2021, the deficit decreased to 9.0%, reflecting initial recovery efforts and better fiscal discipline. This trend continued in 2022, with the deficit narrowing to 8.2%, indicating sustained fiscal consolidation. By 2023, the deficit further reduced to 5.7%, showcasing successful government measures to stabilize the economy, improve revenue collection, and manage public spending more efficiently. Overall, the consistent reduction in the fiscal deficit highlights Zambia's commitment to fiscal responsibility and economic stability.

Figure 7: Fiscal Deficit Trend (2020 - 2023)



Sources: Constructed by Consultants from IMF & Ministry of Finance and National Planning Economic Reports

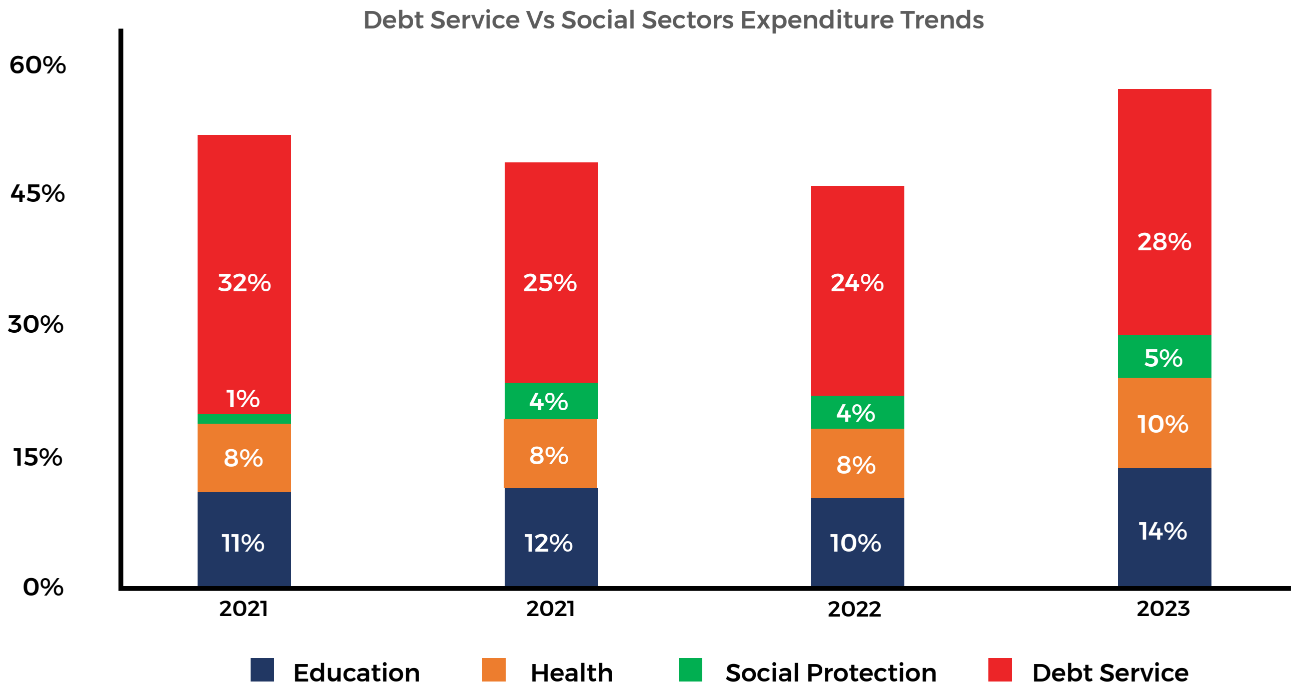
4.2.3. Debt Servicing and Budget Execution

Debt distress tend to severely impacting economic growth and limiting funding for essential public services. The burgeoning debt servicing costs diverts resources from crucial sectors like healthcare, education, and social protection. During the period under review, debt servicing constituted a significant portion of Zambia's national expenditure, though the share varied year by year.

During the period under review, Zambia's debt servicing accounted for a substantial portion of national expenditure, starting at 32% in 2020, decreasing to 25% in 2021 and 24% in 2022, before rising again to 28% in 2023. In 2020, this high allocation constrained spending on education, health, and social protection, which received 11%, 8%, and 1% of the budget, respectively. As debt servicing eased in 2021, allocations to these sectors increased, with education rising to 11.5% from 11% in 2020, health to 8.1% from 8% in 2020, and social protection seeing a significant jump to 4% form less than 1% in 2020. In 2022, despite the continued decrease in debt servicing, education's share dropped to 10.4%, health remained stable at 8%, and social protection slightly decreased to 3.6%. In 2023, although debt servicing rose to 28%, the government significantly increased allocations to education (13.9%), health (10.4%), and social protection (4.9%), indicating a prioritization of these critical sectors. This was driven largely by over performance of grants and substantial budget support from cooperating partners, spurred by goodwill following the near completion of a successful debt restructuring process. Furthermore, one respondent had this to say on the impact of debt servicing on budget execution:

"Since 2020, government has not paid interest payment on Eurobonds. The impact has therefore not been significant. But prior to 2020, debt repayment accounted for more than a quarter of the national budget."

Figure 8: Debt Service Versus Social Sector Spending Trends (2020 - 2023)



Sources: Constructed by Consultants from IMF & Ministry of Finance and National Planning Economic Reports

Though the impact of debt servicing on budget execution is evident in the fluctuating expenditures on education, health, and social protection, it remains inconsistent. High debt servicing in 2020 constrained spending in these sectors, but reductions in debt servicing in 2021 and 2022 did not uniformly result in increased allocations across all areas. Similarly, an increase in debt servicing in 2023 did not lead to decreased spending in education, health, or social protection. This inconsistency indicates that expenditure in these sectors is influenced by a range of factors beyond debt servicing, including grant performance, budget support from partners, and revenue generation.

This scenario implies that navigating and balancing debt obligations with essential public services remains a significant challenge. Zambia therefore needs to carefully manage its debt to ensure investments in critical sectors like education, health, and social protection is sustained for long-term development and economic stability.

4.3. Impact Assessment

4.3.1. Socio-Economic Impact of Budget Execution on Key Sectors such as Health, Education, Infrastructure, and Social Services.

To establish the impact of budget execution on the three sectors as well as effectiveness of budgetary allocations in achieving intended outcomes, the study identified three key development outcomes aligned to the three sectors in the National Development Plan (NDP) mainly human and social development pillars. The development outcomes included; Improved Education and Skills Development, Improved Health, Food and Nutrition and Reduced Poverty, Vulnerability and Inequality. The study assessed the alignment of budget execution with national development goals as well as the effectiveness, efficiency and adequacy of budgetary allocations in achieving intended outcomes in the national development plans (NDP) based on the discrepancies or alignment of annual budget allocations with the NDP budget as well as eventual budget releases/disbursement, actual expenditure and output target performance of each key development outcome.

The analysis revealed that there was an improved budgetary allocation, disbursement and execution rates on the development outcome linked to the three sectors during the period under review, just like it was established under function classification allocation, budget performance execution analysis above. Nevertheless, unlike the function classification were the disbursement rates and budget execution or burn rate were similar across the three sectors in all the three fiscal years, there were notable variations in the disbursement and budget execution rate among the three key development outcomes linked to the key sectors under consideration. While functional classification disbursement and execution rate ranged between 77.83% and 88.98% and 97.03% and 98.59% respectively among all the three sectors across the fiscal years; the development outcome disbursement and execution rates ranged between 64% and 104% and 91% and 99% respectively.

Table 3: Key Development Outcome Budget Performance (2021-2023)

Development Outcome	Sector Aligned To	Year	NDP Budget (K'Billion)	Annual Budget (K'Billion)	Disbursement (K'Billion)	Expenditure (K'Billion)	% Releases against annual budget	% Expenditur against releases
Improved Education and Skills Development	Education	2021	1,969.08	2,075.65	1,715.36	1,562.81	83%	91%
		2022	13,834.98	15,451.01	13,711.36	13,580.56	89%	99%
		2023	20,798.16	21,675.14	20,121.87	19,787.12	93%	98%
Improved Health, Food and Nutrition	Health	2021	3,276.99	5,266.05	3,393.02	3,334.37	64%	98%
		2022	5,147.32	5,878.07	4,889.52	4,682.46	83%	96%
		2023	7,318.58	4,898.62	5,098.00	5,043.00	104%	99%
Reduced Poverty, Vulnerability and Inequality	Social Protection	2021	2,993.61	11,428.30	8,268.09	8,001.81	72%	97%
		2022	5,668.37	5,112.84	4,900.46	4,824.11	96%	98%
		2023	8,745.91	1,940.81	1,743.80	1,738.63	90%	100%

Sources: Consultants own construction from NDP and MoFNP Reports

16 ILO, http://www.ilo.org/public/english/bureau/stat/res/index.htm

17 https://knoema.com/atlas/Zambia/Unemployment-rate. In Zambia, unemployment rate from 1986 until 2020 has averaged 12.94 percent

Furthermore, despite improved budgetary allocation, disbursement and execution rates on the development outcome, discrepancies existed between the NDP allocations and the actual annual budget allocations across key sectors leading varying performance and achievement of sectoral targets. Under the Improved Education and Skills Development outcome for instance, the annual budgets consistently exceeded the NDP allocations: K2,075.65 billion against K1,969.08 billion in 2021, K15,451.01 billion against K13,834.98 billion in 2022, and K21,675.14 billion against K20,798.16 billion in 2023. Despite these higher allocations, the sector struggled with efficiency, as evidenced by the varying success in meeting performance targets—28% in 2021, 61.60% in 2022, and a decline to 48% in 2023. This indicates potential inefficiencies in fund utilization and a possible misalignment between the allocated funds and the sector's actual needs.

Under Improved Health, Food, and Nutrition outcome, the annual budgets showed considerable variation compared to the NDP targets. In 2021, the annual budget of K5,266.05 billion was much higher than the NDP allocation of K3,276.99 billion, yet only 38% of targets were met. In 2022, with an allocation of K5,878.07 billion against an NDP target of K5,147.32 billion, there was a substantial improvement, with 85% of targets met. However, the budget decreased to K4,898.62 billion in 2023, below the NDP allocation of K7,318.58 billion, leading to a significant drop in target achievement to 33%. This inconsistency in funding and performance highlights the need for a stable and adequately funded health budget to ensure continuous improvement in health outcomes.

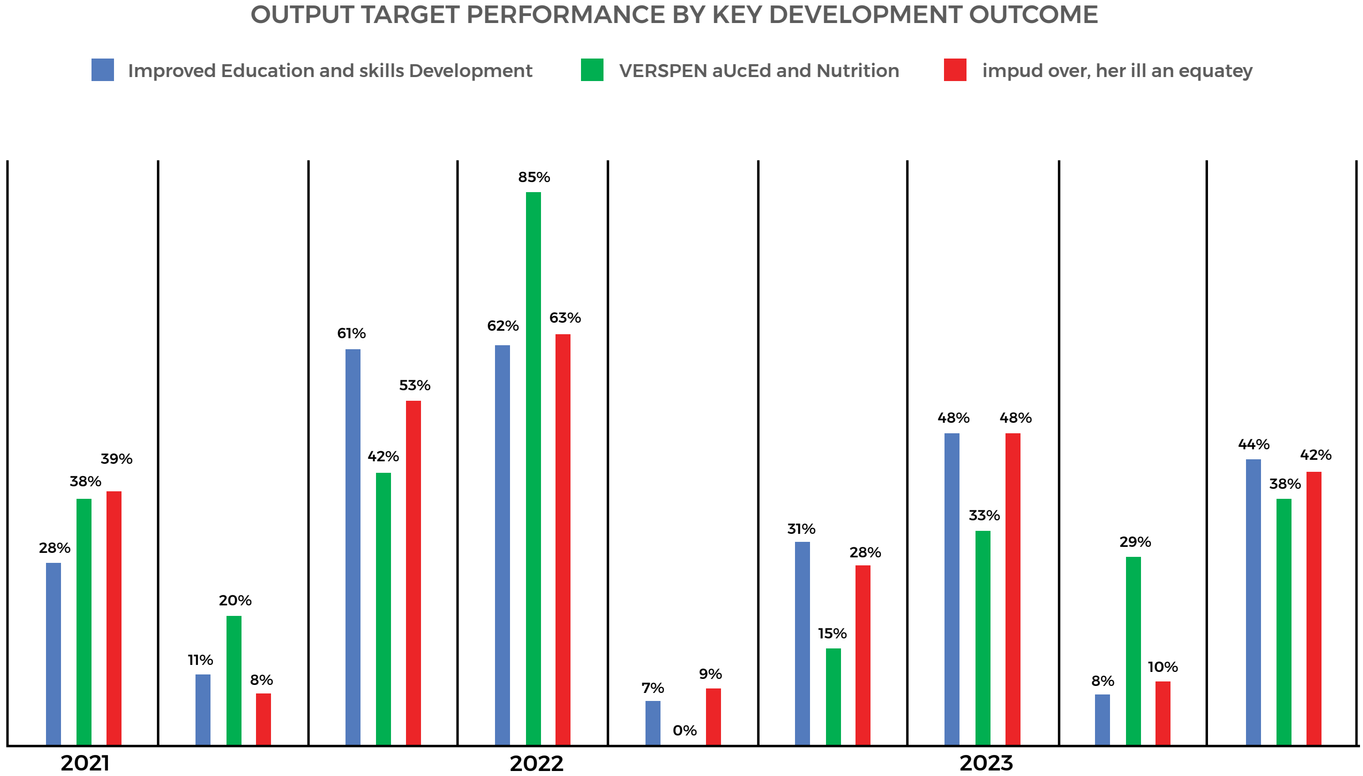
Under Reduced Poverty, Vulnerability, and Inequality outcome, the budget allocations were inconsistent with the NDP targets, particularly in 2022 and 2023. The 2021 annual budget of K11,428.30 billion was significantly higher than the NDP allocation of K2,993.61 billion, yet 53% of targets were not met. In 2022, the budget dropped to K5,112.84 billion, below the NDP allocation of K5,668.37 billion, but there was an improvement in target achievement to 63.29%. The most significant discrepancy occurred in 2023, with an annual budget allocation of only K1,940.81 billion, far below the NDP target of K8,745.91 billion, resulting in a decrease in target achievement to 48%. The sharp reduction in budget allocations suggests under funding, which may have hindered the sector's ability to effectively reduce poverty and inequality. On the increased the annual education, social protection and health budgets, one respondent had this to say:

"Government has focused more on social service provision in the last few years. This has resulted in recruitment of more civil servants in education and health sector. It has also necessitated the implementation of the free education policy and recruitment of more beneficiaries on the social cash transfer program. However, because of limited fiscal space, there has been a tendency scale down on infrastructure development."

4.3.2. Effectiveness of Budgetary Allocations in Achieving Intended Outcomes.

Budget evaluation helps determine the extent to which a budget has achieved its intended goals and objectives. By comparing actual financial outcomes with the planned budget, organizations can identify areas of success and areas that require improvement. The study revealed that that while there were instances where budget allocations exceeded NDP targets, the inconsistency and misalignment between planned and actual budgets often led to under performance in meeting sectoral and national development goals as shown in the figure below.

Figure 9: Output Target Performance by Key Development Outcome Area (2020 - 2023)



Source: Consultants own construction from NDP annual progress reports

4.2.4. Debt Outlook for 2024 (The Outlook can be slotted just before 4.3 Impact Assessment)

Zambia's agreement with Eurobond holders certainly represents a critical milestone towards restoring debt sustainability. As attention must now turn to the commercial creditors, it is helpful that the Eurobond deals roughly outline what the final deal must look like. In 2024, Zambia's economy began to pick up speed again. The progress made on debt restructuring has renewed investor confidence and enhanced the country's attractiveness. The remaining commercial lenders include the Chinese state-owned China Development Bank and the Industrial and Commercial Bank of China. Together, Zambia owes them more than $ 900 million, and to them, geopolitical concerns may matter again. Other important players are private-sector entities like the multinational African Export-Import Bank or the London-based Standard Chartered. To finalise the debt restructuring process, all of these institutions must agree to terms that are comparable to those concluded with bondholders and official bilateral creditors.[1]

The Zambian Government reckons that accounting for inflation and other long-term factors, its total burden of debt plus interest rates will actually be reduced by 40 %. As it is set to spend considerably less money on debt servicing in the next 10 years, so its fiscal space is growing decisively. It will be able to spend more on education, health and infrastructure, and to the extent that it manages to stem corruption, it may even be able to avoid painful austerity. Zambia has undertaken a raft of fiscal and other macroeconomic reforms to restore macroeconomic stability and debt sustainability under the International Monetary Fund (IMF)-supported Extended Credit Facility of US$ 1.3 billion. The country has made significant progress in debt restructuring and negotiations with creditors are nearing completion. In May 2024, private bondholders unanimously endorsed the country's debt restructuring programme, clearing one of the remaining major hurdles for completion of a very protracted restructuring process.[2]

Important processes in debt restricting in Zambia are summarized in table below:

2024 February	Signing of the Memorandum of Understanding with all members of the country's OCC
2024 March	Agreement in Principle (AIP) with Adhoc Committee of Eurobond Holders
2024 June	Successful Consent solicitation. IMF Board approval of 3rd Review & SDR (US$385.7 million) augmentation
2024 July	Exchange & Trading of New Bonds (Bond A – USD 1.75 billion and Bond B – USD 1.35 billion) on LSE
2024 September	Agreement in Principle (AIP) with selected commercial creditors ~ US$ 1.5 billion
2024 November	IMF Staff Level Agreement for the Fourth Review

Sources: Constructed by Consultants from Ministry of Finance and National Planning Financial Reports

1. https://www.dandc.eu/en/article/hichilema-government-achieves-slow-steady-progress-towards-making-burden-sovereign-debt

2. https://vcda.afdb.org/en/system/files/report/zambia_cfr_2024.pdf

5.0. Conclusion

The review of Zambia's national budget execution from 2021 to 2023 reveals a positive trend in budget allocations to Health, Education, and Social Protection, despite falling short of international benchmarks. Budget allocations for Health increased from K9.7 billion (8.1%) in 2021 to K17.4 billion (10.4%) in 2023, Education from K13.8 billion (11.5%) in 2021 to K23.1 billion (13.9%) in 2023, and Social Protection from K4.8 billion (4%) to K8.13 billion (4.9%) in 2023. However, the budget shares for Health (10.4% in 2023) and Education (13.9% in 2023) remain below the Abuja Declaration (15%) and the Incheon Declaration (20%) targets.

The findings indicate a consistent upward trend in supplementary appropriations, particularly in 2021 with a 33% increase, though the variations moderated to 1% in 2022 and 7% in 2023. Disbursement rates averaged between 77% and 89%, and budget-based execution rates improved from 75.61% in 2021 to 87.73% in 2023, while disbursement-based execution rates remained high, increasing from 97.15% in 2021 to 98.59% in 2023. This demonstrates effective and efficient fund utilization once disbursed.

However, public debt remains a challenge, with domestic debt rising by 20.2% from 2021 to 2023 and external debt increasing by 11.6%. Despite a significant reduction in the fiscal deficit from 14.4% in 2020 to 5.7% in 2023, debt servicing continues to exert pressure on budget execution. The impact of debt servicing on sectoral allocations was inconsistent, highlighting the need for sustainable debt management.

The socio-economic impact assessment revealed that improved budgetary allocations and disbursement rates did not consistently translate into target achievements. The education sector achieved 28% of its targets in 2021, 61.60% in 2022, and 48% in 2023. The health sector met 38% of its targets in 2021, 85% in 2022, and 33% in 2023. Social protection targets were met at 47% in 2021, 63.29% in 2022, and 48% in 2023. This indicates inefficiencies and misalignments between allocations and actual performance, necessitating improvements in budget planning and execution.

In conclusion, while Zambia has made strides in increasing budget allocations to key sectors and improving fiscal policy compliance, the effectiveness of these allocations in achieving desired outcomes remains mixed. Moving forward, Zambia should focus on aligning budgets with international commitments, enhancing fund utilization efficiency, and managing debt sustainably to support long-term economic stability and development.

6.0. Recommendations

Given the foregoing discussion, the following are the key recommendations:

Key Recommendations

Continue Prioritizing the Social Sectors: To meet international commitments and further enhance the impact of social sectoral budgets, Zambia should continue to incrementally increase the budget shares for Health and Education. Additionally, implementing robust domestic resource mobilization national budget base to consequently increase resource allocation based on the proportion allocation international benchmark. Zambia should also possibly consider shifting from proportional sectoral budget allocation benchmark to other benchmark like the per capital sector allocation and expenditure which are more comprehensive.

Minimize Budget Variations to Internally Accepted Levels: Though positive supplementary budget appropriation would be welcome to address immediate funding needs or gaps in the priority sectors, government should continue to ensure that supplementary budget adjustments are within acceptable benchmarks to enhance fiscal discipline and maintain budget credibility. Additionally, maintaining transparent and predictable budget processes and comprehensive planning process will help in sustaining the trust and confidence of stakeholders in the government's fiscal management.

Strengthen Budget Planning and Monitoring: in order to avoid significant deviation of the planned and actual expenditure, there is a need to enhance forecasting accuracy, use of robust data analytics to improve revenue and expenditure forecasts.

Enhance Efficiency in the Disbursement and Utilization of Resources: To further improve budget utilization and reduce underspending, the government should address the factors causing delays or inefficiencies in the disbursement and allocation processes. Enhancing the timeliness and completeness of fund disbursements will help ensure that the full budget is utilized effectively, thereby maximizing the impact of resources in the Education, Health, and Social Protection sectors.

Enhance Public Debt Management: To stabilize its fiscal situation and manage debt effectively, Zambia should quickly finalize the debt restructuring process while focusing on controlling domestic debt growth. Strengthen the implementation of the new legal, policy and institution framework of public debt management to manage borrowing and ensuring that new multilateral loans are used efficiently will be crucial for maintaining fiscal sustainability and economic stability.

Continue Balancing Debt Servicing and Financing of Key Social Sectors: Government should continue managing debt obligations carefully while prioritizing investments in essential sectors. Improving debt management strategies and enhancing revenue generation will be crucial to balancing debt servicing with adequate funding for education, health, and social protection, ensuring sustainable long-term development and economic stability.

Improve Budget Alignment with NDP Targets: Ensure better alignment between budget allocations and NDP targets to enhance sector performance. Stabilize funding levels to address inconsistencies and inefficiencies and implement mechanisms to monitor and adjust allocations effectively to meet development goals and improve sector outcomes.

Strengthen Budget Planning and Monitoring: in order to avoid significant deviation of the planned and actual expenditure, there is a need to enhance forecasting accuracy, use of robust data analytics to improve revenue and expenditure forecasts. Regular implementation of monitoring and evaluation mechanisms will track performance against NDP targets and adjust budget allocations accordingly to address under funding issues.

7.0. Bibliography

Cho, C., Lakin, J., Griffiths, U., (2019), Underspent immunization Budgets, A budget credibility analysis of 22 countries, IBP and UNICEF

International Budget Partnerships (2019a), How Governments Report on and Justify Budget Deviations: Examples from 23 Countries.

International Budget Partnership (2022a), Connecting Budget Credibility and the Sustainable

International Budget Partnerships (2018), Making and Keeping Promises: Why Budget Credibility Matters.

Ministry of Finance and National Planning, 2020. For the Year 1st January 2021 to 31st December 2021, Lusaka: Ministry of Finance and National Planning.

Ministry of Finance and National Planning, 2021. For the Year 1st January 2021 to 31st December 2022, Lusaka: Ministry of Finance and National Planning.

Ministry of Finance and National Planning, 2021. Government of The Republic of Zambia Financial Report - Year Ended 31st December, 2020, Lusaka: Ministry of Finance and National Planning.

Ministry of Finance and National Planning, 2022. For the Year 1st January 2021 to 31st December 2023, Lusaka: Ministry of Finance and National Planning.

Ministry of Finance and National Planning, 2022. Government of The Republic of Zambia Financial Report - Year Ended 31st December, 2021, Lusaka: Ministry of Finance and National Planning.

Ministry of Finance and National Planning, 2023. Government of The Republic of Zambia Financial Report - Year Ended 31st December, 2022, Lusaka: Ministry of Finance and National Planning.

PEFA (2016), Framework for assessing public financial management.

UNICEF (2023), Social Sector Summary Budget Brief