IMPLICATIONS OF DEBT RESTRUCTURING FOR SOCIAL POLICIES AND SOCIAL DEVELOPMENT IN AFRICA

THE ZAMBIAN EXPERIENCE

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Outline of the presentation

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BACKGROUND

- Zambia has a population of 19.6 million.
- More than 61% of the people earn less than the international poverty line of $2.15 per day .
- Zambia’s debt has been rising dramatically -in 2011, total debt was recorded at US$3.5 billion.
- Zambia's external public debt reached $14.87 billion at the end of June 2022.
- Zambia was the first African country to default during the COVID-19 era as it struggled with debt that reached 133% of GDP at the end of 2022.

IMF Extended Credit Facility and key reforms

- IMF approved a 38-month arrangement under Extended Credit Facility (ECF) in for Zambia in August 2022, amounting to around US$1.3 billion.
- ECF -arrangement is supposed to advance authorities "homegrown" reform plan to restore debt sustainability, create fiscal space for much needed social spending, and strengthen economic governance.
- Securing timely restructuring arrangement with external creditors is essential for the successful implementation of the ECF arrangement.

IMF Extended Credit Facility and key reforms

- Elimination of subsidies on fuel by making pump prices cost reflective;
- Publication of the action plan for the full migration of the Farmer Input Support Programme (FISP) to a more efficient electronic agricultural input support programme;
- Adoption of the findings of the cost of service study for electricity (increased electricity tariffs); among others

Status on IMF reforms and MoU with creditors

- Last week, the Minister of Finance updated the Nation that Zambia had passed with flying colors as far as implementation of the IMF programme is concerned.
- Despite this milestone, there are concerns that the next IMF disbursement of $188 million could not be met.
- Agreement not yet reached with creditors, MOU with creditors giving financial assurance to be supported by the creditors has not been signed.
- So far, no tangible resolution with the creditors.
- The restructuring of its external debts to creditors including China and Eurobond holders has been greatly delayed.

Status on IMF reforms and MoU with creditors

IMF shouldn't punish Zambia if debt restructuring fails - MoF

By Philip Chisalu

GOVERNMENT says it is appealing to the IMF not to punish Zambia in an event that it does not manage to sign an MOU with its official creditors in time for the anticipated US$188 million disbursement from the fund.

On Thursday last week, IMF revealed that it had reached a Staff-Level Agreement with Zambia on economic policies, to conclude the first review of the 38-month Extended Credit Facility (ECF) supported programme.

The IMF said that once the review of the agreement was approved, Zambia would have access to about US$188 million in financing.

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NO IMF DEAL YET, SAYS DR MUSOKOTWANE

By BUUMBA CHIMBULU

ZAMBIA has not yet reached any tangible resolution with its creditors and fears are that Government may not access the US$188 million distribution from the International Monetary Fund (IMF), Finance National Planning Minister Situmbeko Musokotwane has announced.

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Impact of the reforms

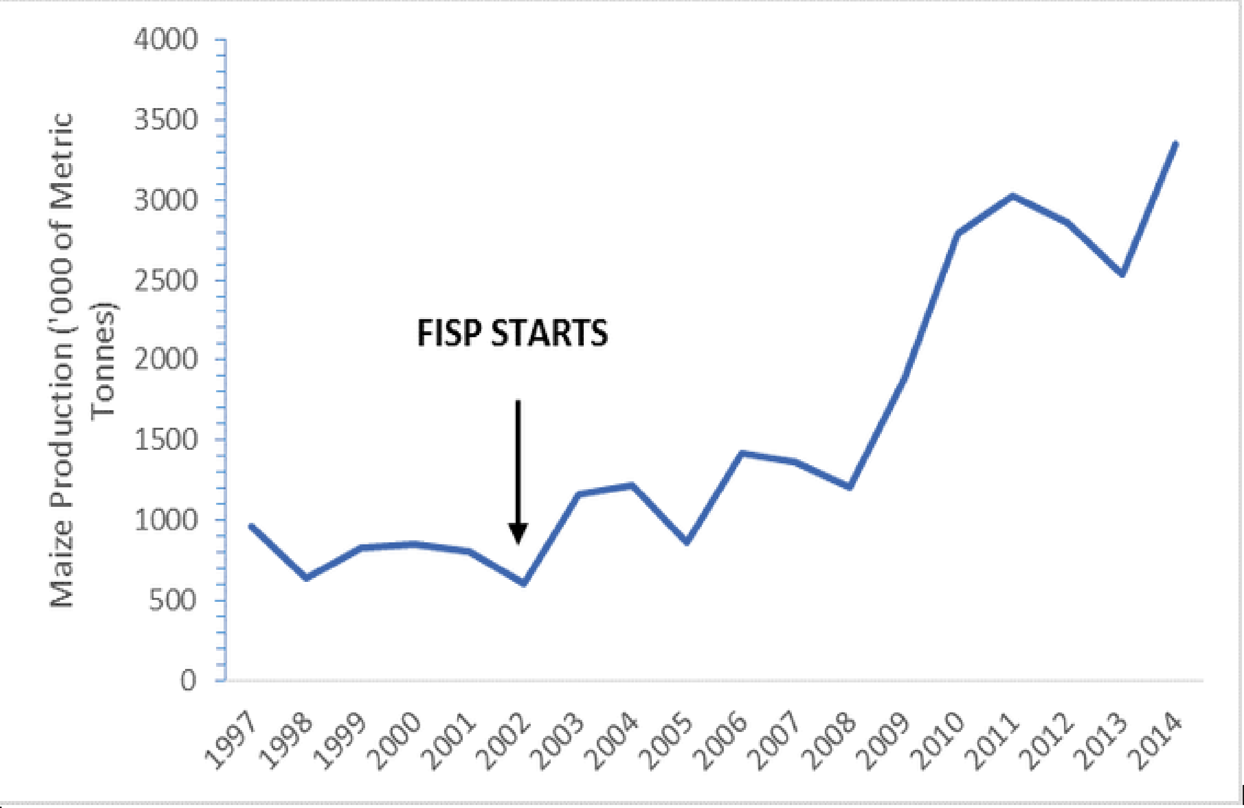
Increased Electricity Tariffs (via subsidy removal)

- Increased tariffs have an effect on real incomes and real expenditure;
- The burden of increased electricity tariffs falls overwhelmingly on the poor.
- A study found that that the poorest 10 percent of Zambian households were likely to experience 9.4 % reduction in real household expenditure as a result of the tariff hike.
- Simulations that have been done show that an addition 100,000 people would become poor as a result of the tariff increase in electricity. This is because their real expenditure would fall below the poverty line as soon as electricity prices go up.

Impact of the reforms

Farmer Input Support Programme (input subsidy)

- Zambian government has been implementing FISP since 2002.
- The FISP supports over 1million small holder farmers.
- Most smallholder farmers rely on FISP in order to produce maize (staple food).
- FISP has been successful in boosting maize production.
- FISP reforms in order to make it efficient entails reducing the FISP budget.



Impact of the reforms

Removal of fuel subsidy

- Fuel subsidies were eliminated in September 2022.
- This means that the people are no longer protected from the vagaries of swings in the international price of oil.
- This has resulted in increased cost of livings as prices of essential goods and services have been rising, with most of the poor people adversely affected.

Debt restructuring and Social policy and Development

Social sectors-As a share of total budget, social sector spending has increased to 30.5 % in 2023 from 23.5% in 2022.

Education -Increased budget from 10% in 2022 to 14% in 2023. Government has continued with teacher recruitment-over 30,000 teachers were recruited in 2022.

Health- In 2023, increased allocation to K17.4 billion from 13.9 billion in 2022, an increase of 25%- Over 11,00 health workers were recruited in 2022.

Social protection- Allocation on social protection went up by 30% to K8.1 billion in 2023 from K6.2 billion in 2022. Government has committed to scale up the number of beneficiaries from the planned 1,021,000 in 2022 to 1,374,500 in 2023.

-However, monthly social cash transfer amounts have remained small.

-With the current extent of poverty, a significant proportion of poor population have still remained without cover.

Debt restructuring and Social policy and Development

- Despite positive reforms undertaken by the Government of Zambia, the delays in sovereign debt restructuring compromise its ability to mobilise and maximise resources for social spending and the full realisation of human rights.
- Education provision is suffering from a lack of funding. The teacher to pupil ratio has remained high with an average ratio of 1 teacher to 60 pupils and there is limited access to teaching aids and support infrastructure such as desks.
- The health sector is under-resourced, with most rural health centres and clinics not having medical doctors and support staff such as pharmacy technologists, lab technicians and midwives.
- Support for farmers has fallen due to a lack of extension officers: the ratio of these officers to farmers is as high as 1 to 1,200 in some areas, three times the ideal of 1 to 400.

Conclusion

- The impact of the cost of servicing the country's debt is reducing social spending, which negatively impacts on the people, especially the poorest in Zambia.
- There is therefore, need to recognize the importance of social spending and ring-fence it from cuts to protect the poorest in society and drive the country's social development.