



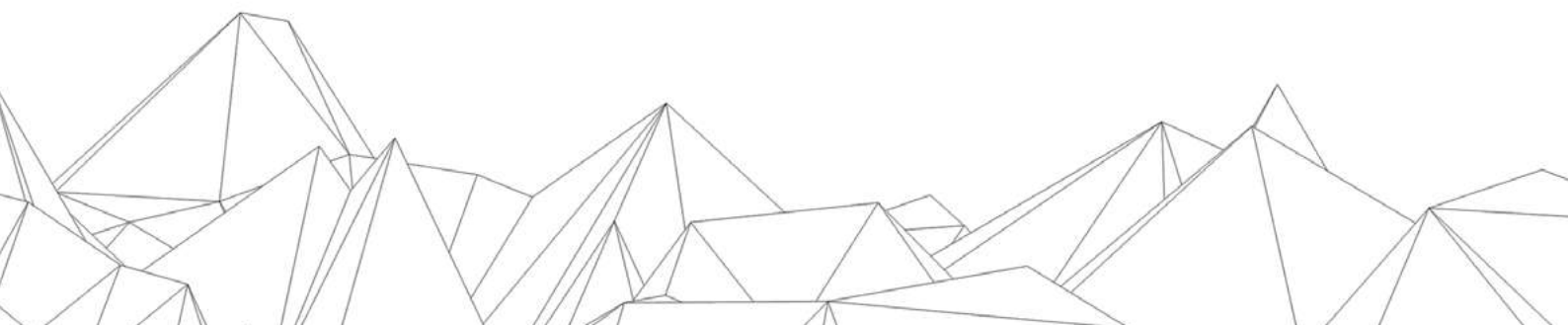
REPUBLIC OF ZAMBIA

**SOCIAL PROTECTION AND JOBS
PUBLIC EXPENDITURE REVIEW 2021**



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PUBLIC EXPENDITURE REVIEW 2021**



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ACKNOWLEDGMENTS

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The report was prepared through a collaboration between UNICEF and the World Bank. The World Bank team was led by Boban Varghese Paul (Economist, Social Protection and Jobs) and Ramya Sundaram (Senior Economist, Social Protection and Jobs), and comprised of: Gonzalo Javier Reyes Hartley (Senior Social Protection Specialist), Miglena Abels (Research Analyst, Social Protection and Jobs), Clement Jean Edouard Joubert (Economist, Development Economics Vice Presidency), Arden Finn (Economist, Poverty and Equity), Puja Vasudeva Dutta (Consultant, Social Protection and Jobs), Muhammad Abdullah Ali Malik (Consultant, Social Protection and Jobs), Astrid Sophie F Uytterhaegen (Consultant, Social Protection and Jobs), Sarang Chaudhary (Consultant, Social Protection and Jobs), Renata Mayer Gukovas (Research Analyst, Social Protection and Jobs), Natasha De Andrade Falcao (Economist, Education), Emma Sameh Wadie Hobson (Senior Social Protection Specialist), Vandas Lilato Nyambe Mukete Luywa (Social Protection Specialist), Natalie Ann Jackson (Consultant, Social Protection and Jobs), Laura Campbell (Social Protection Specialist), Andrew Zadel (Consultant, Poverty and Equity), Hugues Marc Andre Champeaux (Consultant, Development Economics Vice Presidency) and Radhika Kapoor (Consultant, Education). Erwin R. Tiongson (Professor of Practice and Deputy Director,

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ACRONYMS

C-ECT	COVID-19 Emergency Cash Transfer
CGP	Child Grant Program
FISP	Farmer Input Support Programme
FSP	Food Security Pack
GBV	Gender-based Violence
GEWEL	Girls Education and Women's Empowerment and Livelihood
HCI	Human Capital Index
HGSM	Home-Grown School Meals
IFBSPP	Integrated Framework for Basic Social Protection Programmes
ILO	International Labor Organization
JEI	Jobs and Economic Inclusion
K	Kwacha
KGS	Keeping Girls in School
LASF	Local Authorities Superannuation Fund
LCMS	Living Conditions Monitoring Survey
MAL	Ministry of Agriculture and Livestock
MCDMCH	Ministry of Community Development, Mother and Child Health
MCDSS	Ministry of Community Development and Social Services
MCP	Multiple Category Program
MCTI	Ministry of Commerce, Trade and Industry
M&E	Monitoring and Evaluation
MGCD	Ministry of Gender and Child Development
MLSS	Ministry of Labor and Social Security
MOGE	Ministry of General Education
MOF	Ministry of Finance
NAPSA	National Pension Scheme Authority
NEET	Not in Education, Employment, or Training
NAR	Net Attendance Rate
7NDP	Seventh National Development Plan
OVC	Orphans and Vulnerable Children
NSPP	National Social Protection Policy
PIA	Pensions and Insurance Authority
PMT	Proxy Means Test
PSPF	Public Service Pension Fund
PWAS	Public Welfare Assistance Scheme
SCT	Social Cash Transfer
SEEVCA	Service Efficiency and Effectiveness for Vulnerable Children and Adolescents
SWL	Supporting Women's Livelihood
YDF	Youth Development Fund
ZNPF	Zambia National Provident Fund
7NDP	Seventh National Development Plan

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EXECUTIVE SUMMARY



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Achievement of Zambia's Vision 2030 faces constraints in the form of declining overall growth, low human capital investments, increasing monetary poverty and other structural challenges.

1. The Government of the Republic of Zambia (GRZ) has an ambitious long-term vision for the nation and its people, operationalized through the National Development Plans. Vision 2030 outlines the aspirations of the Zambian people to live in a “strong and dynamic, middle income industrial nation that provides opportunities for improving the wellbeing of all”. To pursue its development trajectory, Vision 2030 focuses on four strategic areas to pursue radical transformation: economic diversification and sustainable growth, poverty and inequality reduction, enhancing human development, and creating a conducive governance environment to support these changes. The Seventh National Development Plan (7NDP) 2017-21 outlines goals for each strategic area and provides clear short-term targets to achieve these goals.

2. But delivering on these targets has been challenging. Debilitating macroeconomic challenges coupled with periodic weather shocks and, most recently, the COVID-19 pandemic has meant that many of these targets are likely to be unmet. Below, are a few trends along these key priorities.

3. While signs of a slowing economy were evident at the beginning of the last decade, there has been a sharp decline in recent years, and the economy continues to be resource dependent. Between 2010 and 2015, Zambia's GDP per capita grew at an average of only 1.96 percent and decelerated even further to 0.26 percent during the 2016-2019 time period (World Development Indicators). The slump in growth can be attributed to a devastating combination of external (declining copper prices) and domestic shocks (drought). Metals comprise the largest share of exports from Zambia at an average of 60 percent between 2000 and 2018, and the services sector and industry contributed to about 90 percent of the country's GDP in 2019. This is also noticeable spatially, with Lusaka having a strong primacy effect especially in the years after the de-urbanization of the 1990s.

4. A rapid increase in public spending financed through borrowing, due to lack of a concomitant increase in public revenue, meant a ballooning of nondiscretionary spending in lieu of discretionary spending. Discretionary spending reduced from about 33 percent of total expenditure in 2014 to 12 percent in 2019. The discretionary spending items include all government expenses other than principal and interest payment, and wages.

5. Overall poverty is estimated to have consistently increased since 2015 and, in fact, has rapidly increased in 2020 driven by the COVID-19 pandemic. A simulation exercise by Paul et al. (2021) shows that poverty increased by 1.4 percentage points between 2015 and 2019 to become 56 percent, and by 1.8 percentage points in 2020 alone to become 57.8 percent. This implies that from the 8.4 million Zambians estimated to be poor in 2015, an additional 2.3 million were added by 2020. The rise in poverty between 2015 and 2019 was a result of back-to-back droughts in 2017 and 2018 that affected mostly rural areas. The COVID-19 pandemic has disproportionately affected urban households. Hence, the increase in poverty was driven largely by an increase in urban poverty in 2020 and, prior to that by an increase in rural poverty. Phone-based surveys by Finn and Zadel 2020 confirmed these trends for 2020.

6. Natural disasters and market fluctuations have been a common feature of the Zambian context even before COVID-19, with natural disasters becoming more prominent in rural areas and disproportionately affecting poorer households. The LCMS 2015 survey finds that about 56 percent of households report facing a shock to their welfare over the 12-month period preceding the survey. In 2010, market fluctuations (in the form of price changes) were the most commonly reported type of shock for both rural and urban households (40 percent each). By 2015, while urban households continued to experience this (30 percent), a substantially larger share of rural households reported natural disasters as the most prominent form of shock (37 percent versus 25 percent for price shocks). The analysis also finds that while 63 percent of households in the poorest quintile experienced a shock, only 41 percent of households in the richest quintile did so.

7. Women face a plethora of gender-based disadvantages including early marriage/pregnancy, and Gender-Based Violence (GBV).

Strikingly, about 80 percent of women aged 25-49 years are married by the age of 25 years, compared to 55 percent of men in the same age group. According to the Zambia DHS 2018, about 21 percent and 7 percent of girls aged 15-19 years have experienced physical violence or sexual violence, respectively.

8. Human capital has shown significant improvements in terms of health outcomes and education access, but without similar gains in quality of education, Zambia lags behind regional peers, and the poor are worst off.

Zambia's Human Capital Index (HCI)¹ is 0.397 which implies that a child born today can expect to be only 39.7 percent as productive as she would be had she attained complete education and full health.² Zambia ranks 150 out of 174 countries in terms of HCI. The Sub-Saharan Africa Lower Middle-Income country average for HCI is 0.48 (Sub-Saharan Africa average of 0.40), implying that Zambia is remarkably underinvesting in its people's human capital. This is a critical challenge for the country's future development and achievement of its vision. At the household level, there is a strong link between income/consumption and human capital accumulation. Poorer households' human capital accumulation is worse than that of the nonpoor consistently over time.³ However, the greatest improvement in human capital accumulation was shown by the poorest households. By working with the poorest households, Social Protection and Jobs (SPJ) programs, could help improve their human capital.

9. COVID-19's negative effects will not only affect those that are directly impacted, but will be felt across the population and, in many cases, across generations, eroding decades of progress in human capital.

The most recent global projections on the impact of school closures linked to COVID-19 suggest that, using the HCI metric of learning-adjusted years of schooling, almost 0.6 years will

be lost due to the closures. Such closures and shifts to remote learning can, in many cases, make social inequalities more salient; it can worsen the learning gaps between children with a more affluent background and those who are less well off. Because demand for investing in human capital rises with incomes, a fall in incomes could worsen human capital accumulation for many people, especially the disadvantaged. Additionally, due to COVID-19-induced income effects, many households will likely experience food insecurity and worsening nutrition levels, resulting in higher child mortality and stunting rates (World Bank 2020).

10. The labor force participation rate in Zambia has been falling steadily.⁴

The Zambian labor force has grown considerably in recent years, from 5 million in 2005 to 7.4 million in 2019. However, over the same period the working-age population increased even more rapidly, from 6 million to 9.5 million. Thus, the gap between the size of the labor force and the working-age population more than doubled, from 1.02 million people to 2.14 million people. This divergence can also be expressed as a drop in the labor force participation rate, which fell from 79.8 percent in 2005 to 75.3 percent in 2019. Of those who are not in the labor force, about half report that they do not participate due to family or household responsibilities.

11. While a demographic dividend is in the making, many young Zambians are neither employed nor pursuing any education or training.

About 42 percent of the population is under the age of 15, and 79 percent of the population is under the age of 35 years. Productively engaging youth can, therefore, help Zambia reap a huge demographic dividend. Yet, the share of youth Not in Education, Employment or Training (NEET) in Zambia is high at 43 percent. In comparison, in 2019 the NEET rate for youth globally was 22.2 percent, and 20.7 percent for Africa.⁵ Youth unemployment rates are higher than non-youth unemployment rates (about double), and this gap has been fairly consistent over the last 20 years.

1. Measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives.
2. No child <5 years stunted, 100 percent probability of survival to age 5 years, 100 percent probability of survival 15-60 years, 100 percent school enrollment and full test scores for all.
3. This version of the SES-HCI relies on the same general methodology as the global HCI but uses different data sources in order to allow for this disaggregation, and so is not directly comparable with the global HCI. Also, expected years of school is calculated for children aged 6 to 17 years old and is, therefore, not comparable to the sub-national disaggregation. Finally, the source of the harmonized test scores is the EGRA 2011, and the health component did not include the adult survival indicator. For details on the data and methodology of the SES-HCI, see "A Socioeconomic Disaggregation of the World Bank Human Capital Index" by D'Souza, Gatti and Kraay (2019).
4. For the purposes of this analysis, working age is between 15 and 64 years. The term "labor force" includes all those who are employed, in addition to people of working age who are unemployed (meaning they are available and looking for work).
5. International Labour Office. 2020. Global Employment Trends for Youth 2020, Briefing Note. ILO: Geneva.

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Social Protection and Jobs sector can play a critical role in achieving Vision 2030.

12. A robust and well-functioning SPJ sector is critical to Zambia's overall transformative Vision 2030. SPJ sector is comprised of three pillars—social assistance, jobs and economic inclusion (JEI), and social insurance. Social assistance includes cash transfers (unconditional and conditional), social care programs (such as for the old or sick or young), emergency transfers in response to shocks or to refugees, and food (both in-kind and near-cash transfers such as food vouchers), bursary programs or transportation cost waivers. JEI includes active labor market programs (such as trainings, start-up capital, savings group formation, wage subsidies), passive labor market programs (such as unemployment benefits or severance pay), labor market policy services (including intermediation), and economic inclusion programs (aimed at the extreme poor and vulnerable, through a bundled set of interventions to tackle the multiple constraints they face).⁶ Social insurance programs include contributory or earnings-related pensions and savings programs, health insurance, maternity/paternity benefits, and occupational injury benefits. These programs can contribute significantly to Vision 2030 by improving earnings, working conditions, risk management, human capital and more. Table ES1.1 provides an overall summary of impacts drawing on research studies from across the world.

13. Zambia's SPJ sector has a robust policy and programmatic environment. The main policy documents guiding the social protection sector are the National Social Protection Policy (NSPP,

2015-2019), the Integrated Framework of Basic Social Protection Programs (IFBSPP, 2018) and the Seventh National Development Plan (7NDP) 2017-21. The NSPP provides a strong rationale for a scaled up and well-financed social protection sector overall. The IFBSPP 2018 moves the sector away from framing the poor as viable/nonviable poor to: (a) laying a floor (basic social assistance) together with complementary services (livelihoods and empowerment) to achieve greater impact and (b) a more comprehensive approach (rather than programming in silos) to reduce extreme poverty and promote human capital development. IFBSPP also aims to bring greater coherence and inter-/intra-ministerial institutional and operational coordination. The Strategy Paper on Industrialization and Jobs Creation 2013 provides a clear direction and costing for job creation through the development of priority sectors, with a 'light touch' and zero-cost focus on skills development. Under the Reducing Poverty and Vulnerability pillar, the 7NDP outlines the government's aim to increase the coverage and targeting of SPJ programs to enhance the welfare and livelihoods of the poor and vulnerable.

14. There are, however, gaps in the current policy environment and program architecture, which have a significant impact on overall efficiency of SPJ spending. Presently, a strict legal interpretation of the 2016 Constitution prevents a series of reforms that would allow managing expenditures in both the Public Sector Pension Fund (PSPF) and the Local Authorities Superannuation Fund (LASF). This impedes any change to future accrual rates and the generous commutation rules that generate most of the financing gaps each year for both these schemes. Further, a clear formulation of JEI beyond industrial development led job creation is missing and needs to be addressed moving forward.

6. The State of Economic Inclusion Report 2021: The Potential to Scale



Table ES1.1: Social Protection and Jobs (SPJ) plays a critical role in achieving Zambia's Vision 2030

	ECONOMIC DIVERSIFICATION AND SUSTAINABLE GROWTH	POVERTY AND INEQUALITY	HUMAN CAPITAL	GOVERNANCE
SOCIAL ASSISTANCE	<ul style="list-style-type: none"> ● Raises reservation wages ● Ensures regular and predictable income to improve risk appetite and potentially raise returns⁷ 	<ul style="list-style-type: none"> ● Provides households with income support to fight poverty ● Leads to increase in precautionary savings and improved livelihood strategies, if income support is regular and predictable ● Improves resilience to shocks⁸ 	<ul style="list-style-type: none"> ● Leads to improved human capital outcomes (lower infant mortality, lower levels of stunting, higher levels of educational attainment) when combined with good quality service provision ● Improves resilience to shocks (i.e., reduction in occurrence of negative coping mechanisms)⁹ 	<ul style="list-style-type: none"> ● Improves social contract ● Enhances citizen engagement through grievance redress mechanism ● Increases empowerment of the poorest and vulnerable, especially women and girls ● Improves financial management through e-payments and decentralized delivery of cash
JOBS AND ECONOMIC INCLUSION	<ul style="list-style-type: none"> ● Improves formalization and transformation towards good jobs ● Facilitates better matching of (vulnerable) individuals to suitable jobs ● Encourages labor demand ● Enhances sectoral value creation through improved value chain linkages¹¹ 	<ul style="list-style-type: none"> ● Improves productivity and income of the informal sector ● Improves opportunities for productive engagement of the extreme poor and vulnerable¹² 	<ul style="list-style-type: none"> ● Improves skills of workers ● Improves noncognitive abilities¹³ 	<ul style="list-style-type: none"> ● Improves (potentially) improvement in pro-poor targeting and colocation of programs more broadly through improved delivery systems (e.g., beneficiary/ social registry)¹⁰
SOCIAL INSURANCE	<ul style="list-style-type: none"> ● - Improves working conditions and especially in riskier work environments¹⁴ 	<ul style="list-style-type: none"> ● Helps individuals manage risk, take advantage of productive opportunities, and leads to growth which is more inclusive ● Improves well-being by providing peace of mind¹⁵ 	<ul style="list-style-type: none"> ● Improves access to health especially during distress ● Encourages greater investments in child human capital through reduced risk mitigation needs¹⁶ 	

Source: Author's illustration, based on literature review (see footnotes).

7. Asfaw et al. 2014; Muralidharan et al 2018;

8. Muralidharan et al 2018; Beegle et al. 2018; Bowen et al. 2020

9. Alderman et al 2012; Akresh et al 2013; Ralston et al. 2017; Premand and Stoeffler 2020

10. World bank 2014; Evans et al. 2016; Muralidharan et al. 2016;

11. Chakravarty et al. 2016; Ibarraran and Shady 2009

12. Andrews et al. 2021; Honorati 2015

13. Ibarrarán et al. 2014; Das 2021; Arriagada et al. 2018

14. FAO 2015.

15. Fang and Sakellariou 2016; Tamborini and Cupito 2012

16. Mu and Du 2015

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Though, while budgetary allocations to Social Protection and Jobs has increased, financial sustainability is a concern as budget allocations go unmet and pension funds perform poorly.

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15. Budgetary allocations for SPJ increased between 2014 and 2021, averaging about 0.89 percent of GDP during this period.

The budget allocations or authorized budget provision for SPJ programs increased from K1,140 million in 2014 to K5,654 million in 2021. During this time period, the share of SPJ allocations in total GDP increased considerably from 0.68 percent of GDP to 1.45 percent. While allocations dropped immediately after 2017, they picked up again from 2020 onwards following the COVID-19 crisis. The sharp ascent in 2021 can be attributed to a 994 percent and a 124 percent increase in authorized budget allocations for the Food Security Pack and Social Cash Transfer programs, respectively.

16. SPJ budget allocations are also increasingly becoming more pro-poor. Between 2014 and 2017, social insurance budget allocations were more than half of the total SPJ allocations. Since then, social assistance and jobs and economic inclusion budget allocations have increased consistently. In fact, in 2021, social insurance allocations only comprise 19 percent of overall allocations.

17. Expenditures between 2014-18 averaged only 0.54 percent of GDP and affect the pro-poor programs more.

The execution rate, defined as the share of actual spending in the total authorized budget provision, is low for SPJ. For the 2014-2018 period, actual spending averaged 65 percent of the authorized budget. Across the three pillars of SPJ, social assistance programs have the lowest execution rates during this time period. While expenditure data since 2018 was not available at the time of writing of this report, the execution rates will have increased, driven by the donor financing of SCT through two rounds of GEWEL Additional Financing, one of which also includes financing from FCDO and SIDA. This low execution rate and reliance on donor financing is a function of broader fiscal challenges facing Zambia. The political economy of SPJ financing has a critical role to play as regressive and ineffective subsidies receive greater budget allocations and which are also close to fully executed.

And, the Social Protection and Jobs sector is fragmented, and programmatic coverage is low vis-à-vis needs.

18. While social assistance programs have the largest coverage across pillars with over four million people currently enrolled, about half the poor will still not have access to any safety nets. The current caseload of social assistance programs account for about 23 percent of population which is comparable to regional peers with similar poverty levels. The SCT alone covers about 18 percent of the population (at a caseload of 614,000 beneficiary households). This will increase even further once the SCT program scales-up to 994, 000 households by the end of 2021. Nevertheless, about half of the poor will continue to not have access to any safety nets.

19. Jobs and Economic Inclusion (JEI) programs are being implemented across seven ministries, with little coordination and minimal coverage. The JEI Landscape Survey indicated that seven ministries were actively implementing one or more JEI programs. Furthermore, few programs were aware of what other ministries were doing in this field, suggesting a lack of coordination among programs to avoid duplication of efforts. Program caseloads are extremely low, cumulatively covering only about 6 percent of population.

16.

20. There is a significant gap in youth specific JEI programming despite a huge demographic dividend in the making.

About 80 percent of the country's population are below the age of 35 years. At the same time, the share of Not in Education, Employment or Training (NEET) youth in Zambia is currently very high at 43 percent (more than double the rate for Africa). Young adults aged 15 to 35 years also face a level of risk for unemployment and long-term unemployment that is disproportionately higher than older people in the working age population. Despite the significant need, there was just one youth specific program identified through the JEI Landscape Survey.

21. While the pensions system started to consolidate in 2000, it continues to be fragmented.

Since its introduction in 2000, the National Pension Scheme Authority (NAPSA) has enrolled all new workers in the public and private sectors as well as the former members of the Zambia National Provident Fund (ZNPF). However, workers who were members of the Local Authorities Superannuation Fund (LASF)

and the Public Service Pension Fund (PSPF) prior to 2000 remain with those institutions. Further, PSPF continues to enroll members of the Defense and Security sector.

22. All three institutions cover formal workers, but informal employment represents 70 percent of total employment in Zambia, generating an important coverage gap.

Together, NAPSA, PSPF and LASF cover about 32 percent of the total employed population estimated for 2019.¹⁷ This implies that over two-thirds of the employed population—mostly corresponding to informal workers—do not contribute to any pension scheme.

23. At the same time, due to the lack of coverage in the contributory system, a significant proportion of the elderly population does not receive a pension benefit.

In 2019, NAPSA reported a total of 16,918 pensioners, LASF had 13,309 pensioners and PSPF had 58,634. Together, these figures represent only 13.3 percent of the population which is 60 years or older.

Key Social Assistance and, Jobs and Economic Inclusion programs are progressive in terms of selecting the poor and vulnerable, whereas, pension programs are, by design, regressive.

24. While robust data is not available to assess targeting and equity issues, simulations using administrative data show that key programs are pro-poor.

Nationally representative survey data is often used to assess the targeting effectiveness of SPJ programs (World Bank ASPIRE) in other countries, including in the region. Nevertheless, the lack of such recent data and missing SPJ modules in the 2015 LCMS, implies that such analysis was limited to programs for which good administrative data was available—SCT, KGS and SWL. The analysis finds that targeting is spatially pro-poor across all these programs. In addition, further simulating SCT's targeting criteria in

the household survey yields that 89 percent of households belong to the first six income deciles or, in other words, are poor. Existing literature also finds that FSP is pro-poor targeted.

25. The pension system, by virtue of targeting formal employment, is regressive especially given the gap in coverage of informal employment.

As highlighted earlier, the pension system in Zambia focuses primarily on those employed formally and does not cater to the informally employed. Informal employment accounts for about 70 percent of the population and is a significant gap.

17. Source: Labour Force Survey Report, 2018, Central Statistical Office and Ministry of Labour and Social Security.

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But, adequacy of program benefits varies quite substantially across types of programs.

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26. Among social assistance programs, seemingly, SCT has a relatively low level of adequacy compared to KGS in terms of meeting their objectives. The annual SCT transfer benefit is equivalent to 14 percent of a simulated SCT household's annual consumption. On the other hand, the KGS benefit (school and boarding fees, and the annual education lump sum grant) is about 22 percent of the same or 2.2 times the annual education expenditure of a simulated SCT household. Comparatively, therefore, KGS seems more adequate in terms of meeting its objectives than SCT (adequately smoothing consumption). Yet, without knowing the scale of the constraints and without comparative program metrics from other contexts, it is less clear if these benefits are truly adequate.

27. SWL grants are the most adequate in the region. The benefit amount of productive cash grant is more than three times the average household consumption of the bottom quintile

of households in the latest household survey. This is substantially higher than similar grants provided by other programs in the region (between 40 percent and 134 percent of consumption of households with a similar profile). Nevertheless, as with social assistance programs, adequacy needs to be assessed against the size of the constraints to economic inclusion.

28. Adequacy of pension benefits are high, but payout parameters are skewed heavily to lump sum payments, leaving little in terms of annuity. Both PSPF and LASF have high commutation factors, i.e., lump sum pension benefits that can be availed at retirement, at two-thirds of total benefits. This implies that the yearly payments available thereafter are small and below international standards (ILO recommends a target replacement rate of 40 percent of wages after 30 years of service), at 20-30 percent of wages for PSPF and 10-14 percent of wages for LASF.

And while potential program impacts are high, they are likely unrealized due to unpredictable financing or operational challenges arising from the enormity of contextual constraints. Programs also need to invest further in monitoring implementation and impacts.

29. Social assistance programs have demonstrated impacts on income, consumption, and human capital outcomes. Evidence from Zambia and other African countries shows how cash transfers can lead to improvements in household welfare and help households invest in human capital and livelihoods (Beegle et al., 2018). In Zambia, evaluations of precursors to the SCT program, the largest social assistance in the country, show that for every kwacha transferred to a beneficiary, consumption increased by K0.67 over and above the value of the transfer itself (Handa et al., 2018). The key to achieving these impacts is that cash transfers are regular and predictable. Unpredictable financing, as has been the case, is likely to have muted this impact. While an impact evaluation

of the KGS program is in the design phase, evidence from a similar bursary program in Ghana shows that secondary school completion was 26 percentage points higher among those that were randomly assigned to receive the program, that they obtained 1.26 more years of secondary education, and had higher test scores (Duflo et al., 2019). Similar results were also found for a merit-based scholarship for girls in Kenya (Kremer et al., 2009). The school meals component of the HGSM program increased attendance rates among primary and secondary school students, and the market access component increased production and revenue. Yet, the overall impact of the program on human capital outcomes was limited due to inefficiencies in the weak local farm economy.

30. Some JEI programs have demonstrated impacts of livelihoods, resilience, consumption, and human capital outcomes. Impact evaluations on JEI programs are scant. Nevertheless, a recent working paper from the World Bank analyzed 107 quantitative and qualitative impact evaluations from 80 economic inclusion programs to assess and compare their outcomes. In general, economic inclusion programs were shown to help participants increase their savings and income, and invest more in productive assets. Positive impacts were most evident in the short term, with 82 percent of programs reporting an increase in the participants' ability to save and 67 percent of programs reporting a significant

impact on time spent working. The evidence for medium-term outcomes was less clear, with only seven programs reporting short-term impacts that were sustained in the medium term. Projects that provided a bundle of coordinated multidimensional interventions were shown to have greater impacts relative to one-dimensional activities. The SWL impact evaluation midline is expected to conclude in mid-2021 and will provide a better understanding of how such economic inclusion programs may also show robust impacts in Zambia. Qualitative assessment of the Food Security Pack also showed encouraging results in terms of improving productive impacts, food security and nutrition.

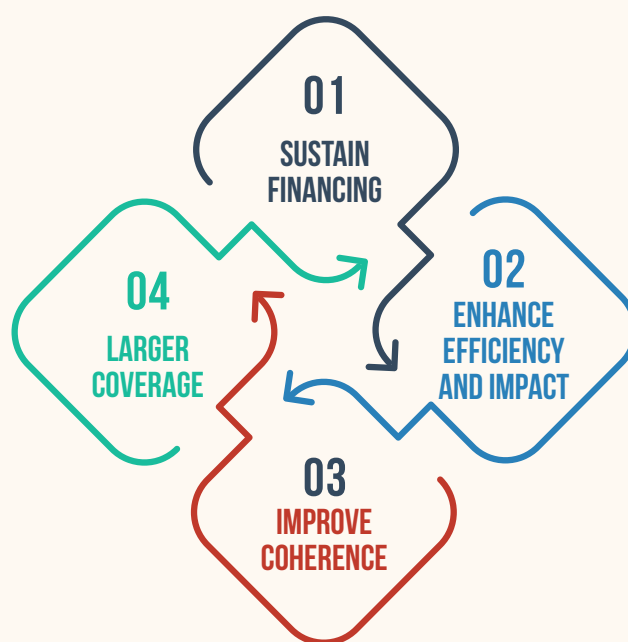
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Despite the substantive gains in the sector in establishing the basic building blocks, comprehensive reforms are essential to realize the transformative impacts of Social Protection and Jobs in contributing to Zambia's broader development goals.

31. Building a robust SPJ sector will require a four-pronged SIMPLE strategy. This includes short-term actions of Sustainable financing, medium-term actions of Enhancing efficiency and impact and improving coherence, and long-term actions of increasing/ Larger coverage and plugging coverage gaps. The envisaged time period for short-term, medium-term, and long-term actions is 1-2 years, 3- 4 years, and 4 or more years, respectively. Practically, various parts of government can start working on these simultaneously depending on the priorities that they ascertain. Priority setting will be critical to define a basic minimum set of policy reforms and programmatic operational improvements that the government can act on in the immediate term.



Figure ES1.1: SIMPLE Strategy to build a robust SPJ sector in Zambia



Source: Author's illustration

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Sustain Financing

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32. As an immediate priority, the government needs to fully finance its SPJ commitments. As discussed earlier, across all pillars only about two-thirds of the budget commitments were spent between 2014-18. Despite some of the operational issues in the sector, fully financing the existing commitments will help realize the potential of the sector. For example, a fully financed SCT program alone, at the current caseload, can lead to a 6-percentage point drop in national poverty after incorporating a COVID-19 related increase.

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33. Fiscal prioritization of SPJ is as much key to the government meeting its fiscal commitment to the sector as is a vibrant economy that will improve execution of budgets across the board. As discussed earlier, a worsening debt situation combined with slowing growth has meant that the government has had to reduce its spending on discretionary items, including SPJ. Nevertheless, it is worth noting that the budget execution rate of FISP is about 87.5 percent between 2014-18 or about 25 percentage points higher than that of SPJ. And energy subsidies are as high as 10 percent of GDP (Sub-Saharan Africa average is 4 percent of GDP). Evidence shows that these subsidies are both regressive and ineffective. In the short-term, the government should reprioritize away from subsidies and toward SPJ, especially programs such as SCT that have demonstrated impacts both globally and in Zambia. The current crisis may be a critical window of opportunity to initiate a subsidy reform with SPJ programs playing a critical role in buffering the negative impacts on the poor.

34. In addition, fiscal reprioritization of spending within the SPJ sector toward more pro-poor and effective programs is also important and will require other high-level reforms. Pension programs, as in other countries, are highly regressive in that they benefit a small portion of households in the highest quintiles. Nevertheless, without discounting the importance of such programs, there are crucial reforms that need to be undertaken within the current pensions landscape of Zambia that could, in turn, allow greater financial resources to more progressive social assistance programs in the short term. These include: (a) reducing the commutation factors or lump sum benefits that civil servants are allowed to claim at retirement, for increased annuity payments over

time, and (b) amending pension rules such that civil servants do not continue on the payroll if lump sum claims are not met by government. Undertaking these reforms, however, may require a re-interpretation of the 2016 Constitution regarding pension benefits.

Enhance Efficiency and Impact

35. In the medium-term, there are various programmatic design parameters that need to be continuously updated to maintain efficiency and impact. This includes the targeting parameters on the SCT as well as operational links between SCT and other programs using its database, such as KGS and SWL. Adequacy of benefits is another design aspect that needs to be continuously assessed and updated as the inflationary pressures imposed by the macroeconomic situation in the country continuously erodes the real value of benefits.

36. Additionally, the enormity and complexity of contextual issues often imply that programs need to adapt their implementation and foster links with other related interventions in relevant sectors. All interventions operate in a context of high levels of monetary and nonmonetary poverty. High levels of physical and sexual GBV exacerbate existing fault lines and pose serious risks to achievement of project objectives. This is particularly seen in the KGS program but also other programs that target women or girls. Mitigating the negative effects posed by these contextual issues will require fostering links with related interventions in education and gender.

Improve Coherence

37. The sector needs to reduce fragmentation, particularly, within the pensions and JEI pillars. Consolidating around NAPSA through a tiered pension system would both reduce administrative costs from operating LASF and move the sector toward financial sustainability as the benefit parameters for NAPSA are more actuarially fair. For JEI, a clear policy linking the jobs and economic diversification strategy to skills development and multisectoral economic inclusion programs, and clarifying the institutional mandate for JEI, is a necessary starting point to ensuring that the pillar operates more coherently.

38. To the extent feasible, the sector needs to build on synergies and opportunities across pillars to provide a holistic set of SPJ benefits and to improve the overall effectiveness of the sector.

Some of these linkages include the provision of JEI programs to social assistance program beneficiaries. This is in line with existing policy around cash plus programming and evidence that shows that bundling such interventions has a higher impact on beneficiaries compared to individual interventions.

Larger Coverage and Gaps

39. The enormity of need in the country only merits further scale-up of social assistance programming. The following analysis finds that the flagship social assistance program, SCT, covers only 16.5 percent of all poor households in the country. Scaling up to one million households will increase this coverage to 27 percent. Doing so would cost an additional US\$44.5 million per year or 0.27 percent of GDP which is equivalent to slightly more the average budget allocation to social assistance programs between 2014-20. Similarly, KGS covers only a small proportion of the total need for bursary support nationally.

While an urgent need, this is framed as a long-term goal in understanding the government's current fiscal situation. Meeting current fiscal commitments will be the immediate priority.

40. Additionally, previous weather-induced food insecurity and COVID-19 have shown the need to build adaptability into social assistance programs. Response to COVID-19 as well as previous weather-related crises have relied heavily on ad hoc financing and programming from donors. Given the regularity of climatic changes in Zambia, it would be efficient to start preparing for the next shock response by (a) putting in place clear financial planning linked to risk analytics, including through collaborations with the private sector, and (b) preparing programmatic systems to be shock sensitive, for example, through maintaining a list of potential beneficiaries in the event of a shock, or widespread financial inclusion of households living in high risk geographies.

41. Other gaps have gone unaddressed in the existing programmatic landscape. There is a critical gap in terms of coverage for the 1000 most critical days of life, youth and informal sector pensions economy workers. While innovative solutions for informal economy workers are being devised, there is a need to scale up rapidly.

 **Table ES1.2:** Recommendations by SPJ pillar by key strategic areas

RECOMMENDATIONS	SOCIAL ASSISTANCE	JOBS AND ECONOMIC INCLUSION	PENSIONS
1. Sustain Financing			
a. Fully finance SPJ commitments.	Close the gap between budget allocations and spending (45 percent) for current programs. In the short-run, this may be achieved with help from development partners (e.g., the GEWEL Second Additional Financing).	Explore alternate sources of financing to meet gap between budget allocations and spending (37 percent) including development partners, joint ventures, and private sector investment.	Undertake financial planning to meet the current and future liabilities from these schemes. Average execution rate is 70 percent, and the system is unable to deal with the financial liabilities stemming from the current LASF and PSPF schemes.
b. Fiscally prioritize SPJ spending toward pro-poor and effective programs.	Reprioritize away from regressive and ineffective subsidies (such as FISP and energy), and toward programs with demonstrated impacts such as SCT.	Reprioritize financing (as with social assistance) to effective JEI programs (including away from ineffective JEI programs).	Reduce the long-term costs of unsustainable legacy schemes and optimize commutation factors to liberate resources and focus on more progressive social assistance programs such as the SCT.

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RECOMMENDATIONS	SOCIAL ASSISTANCE	JOBS AND ECONOMIC INCLUSION	PENSIONS
2. Enhance Efficiency and Impact			
a. Continuously update program design parameters to maintain efficiency and impact.	<p>Initiate formation of a social/ beneficiary registry as a unified database to select households across multiple programs</p> <p>Create data on the registry dynamic through periodic updates and, to the extent possible, use of big data methods to predict key indicators.</p> <p>Update the Proxy Means Test formula of SCT as soon as a new household survey is available</p> <p>Update SCT beneficiary selection criteria for future rounds of scale-up as the current caseload based on existing criteria seems to have exhausted the eligible, but also to keep in line with the evolving nature of poverty.</p> <p>Periodically (annually) review and adjust benefits to maintain their real value.</p> <p>Update benefits to meet policy targets (7NDP or updated targets in the upcoming 8NDP).</p>	<p>Promote bundling of interventions as the poor often face multiple constraints to economic inclusion.</p> <p>Enhance focus on results, through improved M&E systems and assessment of impact. Doing so will help to assess program effectiveness and instill consistency in reporting over time for most of the budget lines.</p>	<p>Introduce a single second tier pension scheme for all public sector and local authorities' employees. A single scheme would reduce inequities across sectors, facilitate portability and potentially be more efficient.</p> <p>Allow public sector workers or certain employers within the public sector to opt for private sector providers of occupational plans. These plans could offer pension benefits at a lower cost.</p> <p>Launch a strong M&E framework to identify and monitor the various pension initiatives to identify which initiatives are more promising and which adjustments are needed to improve the overall performance of pension schemes.</p>
b. Adapt implementation to changing contextual conditions and foster links with other related interventions in relevant sectors.	<p>Develop effective coordination and information-exchange protocols between the SCT database and those of other programs. This would allow for an easier operationalization of cash-plus programming.</p> <p>Explore synergies for KGS with related interventions in the education sector and gender specific programming.</p>	<p>Utilize the existing data infrastructure from other programs within social protection, as needed (e.g., SCT database). This would reduce administrative costs and foster complementarities.</p>	<p>Ensure that pension plans for the informal sector consider linkages to other existing Livelihood/ Employment projects to build synergies and exploit economies of scale.</p>

RECOMMENDATIONS	SOCIAL ASSISTANCE	JOBS AND ECONOMIC INCLUSION	PENSIONS
3. Improve Coherence			
a. Reduce fragmentation.		<p>Clarify institutional mandate for JEI.</p> <p>Institute a clear JEI policy linking the jobs and economic diversification strategy to skills development and multi-sectoral economic inclusion programs.</p> <p>Consolidate programs, e.g., those that address similar demand and supply side issues.</p>	<p>Consolidate existing pension funds around a new and financially sustainable fund via a tiered pension system and carefully consider rationale for PSPF and LASF operations.</p>
b. Build synergies and opportunities across pillars to improve the overall sector effectiveness.	<p>Leverage complementarities across sectors through greater policy coherence, in terms of design, financing and delivery.</p>	<p>Complement existing anti-poverty efforts through social assistance programming to improve effectiveness and efficiency i.e. complementing cash with skills training, coaching, market links, and access to financial services.</p>	<p>Invite existing beneficiaries of social assistance and JEI programs to become active participants in informal sector pensions.</p>
4. Larger coverage and gaps			
a. Fill coverage/ programmatic gaps and further scale-up programming.	<p>Scale up programs, like SCT and KGS, to improve coverage of social assistance programming among poor households.</p>	<p>Introduce youth specific programming, with a focus on simultaneously addressing demand/supply side gaps, e.g., subsidized dual apprenticeship.</p>	<p>Extend coverage to the informal sector workers. This includes preparing a coherent strategy to oversee various efforts to increase coverage to informal sector.</p>
b. Build shock adaptability into programming.	<p>Prepare for the next shock response by putting in place a clear financial plan linked to risk analytics and preparing programmatic systems to be shock sensitive.</p>		

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1 COUNTRY CONTEXT

Zambia's Development Goals and Progress

- 1.1.** Economic diversification and sustainable growth
 - 1.2.** Poverty and inequality
 - 1.3.** Human capital investments
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1. The Government of the Republic of Zambia (GRZ) has an ambitious long-term vision for the nation and its people. Vision 2030 outlines the aspirations of the Zambian people to live in a “strong and dynamic, middle income industrial nation that provides opportunities for improving the wellbeing of all”. To pursue its development trajectory, Vision 2030 focuses on four strategic areas to pursue radical transformation: economic diversification and sustainable growth, poverty and inequality reduction, enhancing human development, and creating a conducive governance environment to support these changes.

2. The Seventh National Development Plan (7NDP) 2017-21 outlines goals for each strategic area and provides clear short-term targets to achieve these goals. For example, under poverty and inequality reduction, the 7NDP commits to reducing poverty by 20 percent or from 54.4 percent in 2015 to 43.5 percent in 2021. At the same time, it aims to reduce the GINI coefficient from 0.57 in 2015 to 0.47 in 2021, and the poverty gap from 26.4 to 20, in the same time period (see Annex 1A for details).

3. Delivering on these targets has been challenging. Debilitating macroeconomic challenges coupled with periodic weather shocks and, most recently, the COVID-19 pandemic has meant that many of these targets are likely to be unmet. Below, are a few trends along these key priorities. This section takes a closer look at Zambia’s context through 3 interlinked strategies areas: i) economic diversification and sustainable growth; ii) poverty and inequality; and iii) human capital investments.

1.1.

ECONOMIC DIVERSIFICATION AND SUSTAINABLE GROWTH

4. While signs of a slowing economy were evident at the beginning of the last decade, there has been a sharp decline in recent years.

Between 2010 and 2015, Zambia's GDP per capita grew at an average of only 1.96 percent; it decelerated even further to 0.26 percent during the 2016-2019 time period (World Development Indicators). The slump in growth can be attributed to a devastating combination of external and domestic shocks. The most notable external shock was the sharp decline in the global price of copper in 2015, which is the main foreign exchange earner for the economy. On the domestic front, the country was hit by multiple weather shocks in the form of droughts in the Western and Southern provinces in 2017 and 2018, and floods in the north, increasing

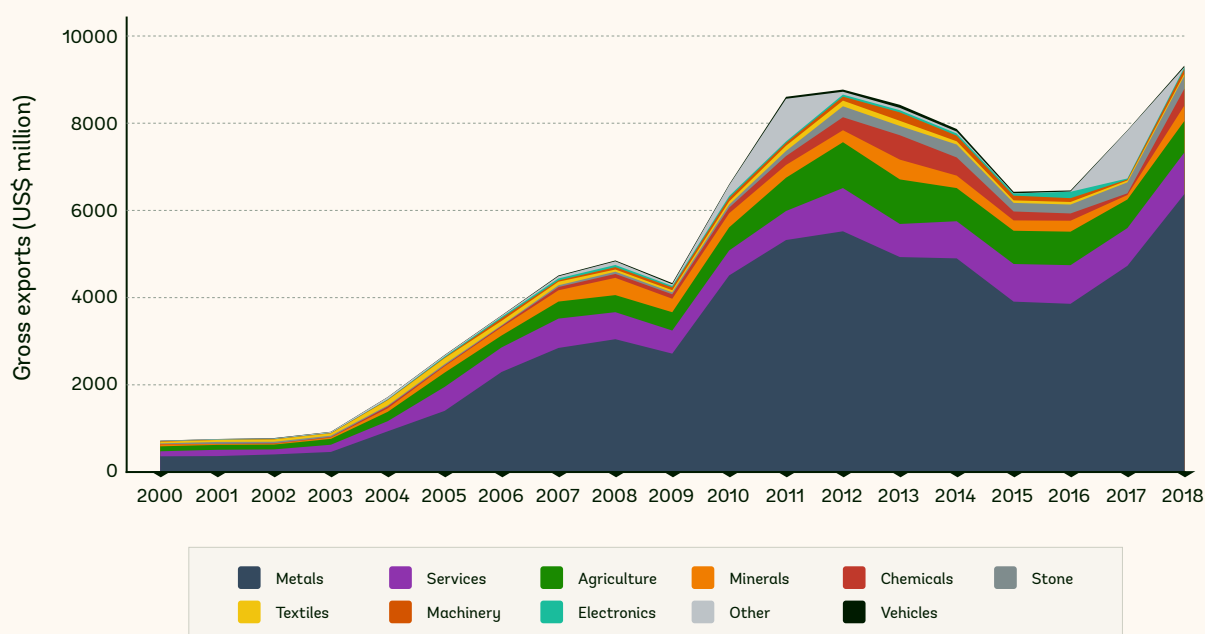
hunger, with more than 2.3 million people across the country expected to be severely food insecure through March.¹⁸

5. Moreover, the country continues to be highly resource dependent in its exports.

Metals comprise the largest share of exports from Zambia at an average of 60 percent between 2000 and 2018 (Figure 1.1). Zambia introduced only six new products between 2003 and 2018, producing an additional income of US\$7 per capita in 2018. This is low in terms of value addition as well as new product introduction compared to regional peers Tanzania, Kenya and Zimbabwe that introduced 16, 11 and 6 new products and produced additional income per capita of US\$6, US\$5, and US\$18, respectively.



Figure 1.1: Metal exports consistently constitute the largest share of Zambian exports



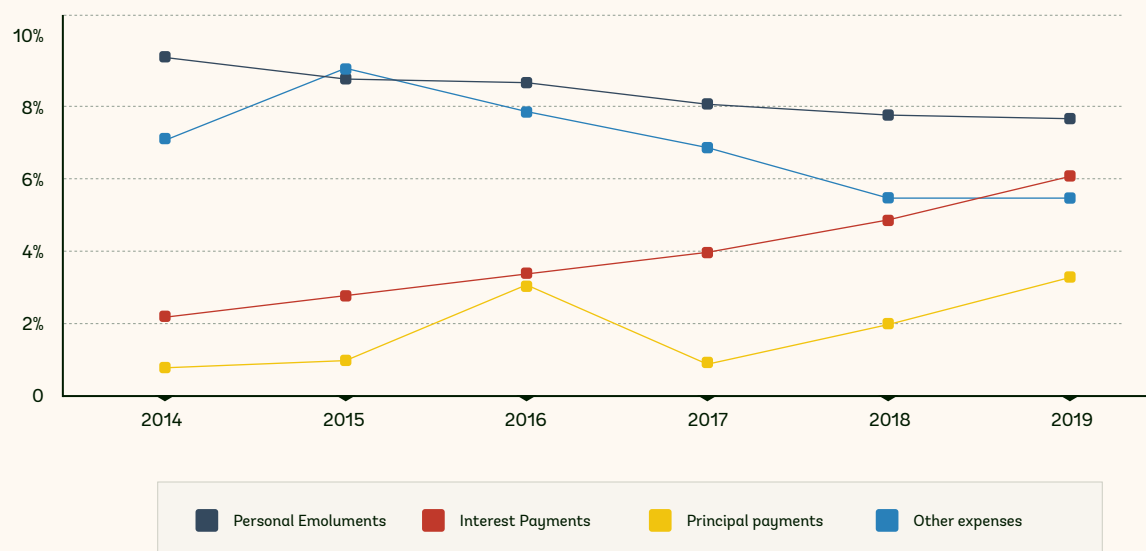
Source: The Atlas of Economic Complexity, Center for International Development, Harvard Kennedy School

18. UNOCHA 2020. <https://www.unocha.org/story/zambia-prolonged-drought-increases-food-insecurity>

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- 6. The services sector and industry contributed to about 90 percent of the country's GDP in 2019.** The two sectors combined contributed to 85 percent of GDP in 2010 (with the services sector value added at 50 percent of GDP, and industry at 35 percent, in 2010), which increased to 90 percent by 2019. Manufacturing and agriculture sectors contribute to a small and declining proportion of the economy.
 - 7. Since the beginning of the last decade there has been a rapid rise in public spending without a concomitant rise in revenue collection.** This is due to the declining growth and relatively low tax capacity. Total expenditure, as a percentage of GDP, more than doubled between 2010 when it was around 15 percent to about 40 percent in 2017 (IMF and World Economic Indicators). Between 2016-2019, despite being a lower-middle-income country, Zambia's tax ratio (tax revenue as a share of GDP) was about 15 percent, slightly lower than the Sub-Saharan Africa average of 18.5 percent, and substantially lower than regional peers South Africa, Zimbabwe, Botswana and Namibia.
 - 8. As a result, the government resorted to external and domestic borrowing to finance these rising expenditures, which has further stressed macroeconomic stability.** External financing has largely been on commercial terms. This has increased the public debt stock from 36 percent of GDP in 2014 to 85.7 percent of GDP in 2019. External debt service, which was barely 5 percent of domestic revenue in 2014, escalated to 26 percent of domestic revenue by 2019. Combined with domestic debt, total debt service increased from 17 percent of domestic revenue in 2014 to 46 percent of domestic revenue in 2019. Signs of debt distress have begun to show, with the burden of meeting increasingly high debt service payments exerting massive pressure on the Kwacha which has depreciated by a lot between 2014 and 2019. Another sign of debt distress is the accumulation of payment arrears to suppliers of goods and services. This in turn implies that local businesses that are owed arrears are unable to meet their loan repayment obligations with banks, leading to a rise in nonperforming loans and premiums on further lending. The situation worsened in 2016 due to negative market sentiment and unfavorable financing conditions. New arrears accumulated during the year amounted to nearly 3.5 percent of GDP and the total stock at year end stood at 8 percent of GDP.
 - 9. Piling debt has meant a ballooning of nondiscretionary spending and a consequent shrinking of fiscal space for discretionary spending.** Discretionary spending reduced from about 33 percent of total expenditure in 2014 to 12 percent in 2019. Figure 1.2 is a graphical illustration of the shrinking fiscal space for discretionary expense, clearly showing the increase in principal and interest payments on debt as a percentage of GDP, and the declining wage bill and other expenses. This has adversely affected the government's ability to finance anti-poverty efforts and efforts to promote inclusive growth.
 - 10. Zambia has a unique urbanization trajectory with a high concentration of the population in Lusaka in recent years.** Commodity price shocks in the 1990s and declining production levels led to a massive decrease in the number of mining jobs available. The number of persons directly employed in the mining industry fell from 62,000 in 1969 to a low of 22,000 in the year 2000. This decline, along with large-scale public sector layoffs and increasing urban mortality rates due to the HIV/AIDS epidemic, caused Zambia to experience a strong wave of de-urbanization in the 1990s. Contrary to the prevailing narrative of the unemployed "returning to the land," this wave of de-urbanization included the migration of urban-born people to rural areas. Although cities in the Copperbelt region had strong population growth rates in the decades prior to 1990s, the jobs drawing migrants to the area were largely concentrated in the extractives industry. Consequently, the 1990s de-urbanization had a larger impact on jobs and urbanization in cities such as Ndola and Kitwe than in Lusaka. Consequently, during the period of rapid economic expansion between 2000 and 2010, Lusaka had an average annual population growth rate of 6.1 percent, while the populations of districts with secondary cities grew at a rate of only 2.5 percent. There is, hence, a strong "primacy" effect in Lusaka and if formal job creation does not keep pace, it could force workers into the informal sector and put downward pressure on wages. Moreover, the economy needs to produce meaningful employment opportunities in rural areas as well.
 - 11. Relatedly, the labor force participation rate in Zambia has been falling steadily.** The Zambian labor force has grown considerably in recent years, from 5 million in 2005 to 7.4 million in 2019. However, over the same period the working-age



Figure 1.2: Shrinking fiscal space for discretionary expense



Source: Authors' own estimates based on annual economic reports and national accounts

population increased even more rapidly, from 6 million to 9.5 million. Thus, the gap between the size of the labor force and the working-age population more than doubled, from 1.02 million people to 2.14 million people. This divergence can also be expressed as a drop in the labor force participation rate, which fell from 79.8 percent in 2005 to 75.3 percent in 2019. Of those who are not in the labor force, about half report that they do not participate due to family or household responsibilities.¹⁹

12. A large share of employed Zambians work in the services sector and many have informal employment, although this is less prevalent in Zambia than among the regional peers. The formal sector is defined by the Zambia Statistics Agency as the units of production that are registered with a taxation and/or licensing authority. 54 percent of Zambians are in informal employment, 23 percent in formal employment, and 22 percent are working in agriculture (Labor Force Survey 2019). Most employed people worked in the services sector (61 percent), followed by agriculture (22 percent) and industry (17 percent). The level of informality

in Zambia is low for the region. Looking only at nonagricultural employment, 65 percent of jobs are in the informal sector in Zambia, compared with 68 percent in Angola, 72 percent in Tanzania, 79 percent in Zimbabwe, and 89 percent in Kenya.

13. While a demographic dividend²⁰ is in the making, many young Zambians are neither in education, employment or training. About 42 percent of the population is under the age of 15, and 79 percent of the population is under the age of 35 years. Productively engaging youth can, therefore, help Zambia reap a huge demographic dividend. Yet, the share of youth Not in Education, Employment or Training (NEET) in Zambia is high at 43 percent. In comparison, in 2019 the NEET rate for youth globally was 22.2 percent, and 20.7 percent for Africa. Young people classed as being NEET are often faced with challenges including discouragement with respect to job opportunities and limited access to education. Remaining in this situation for an extended period can have a significant impact on their long-term employment prospects by preventing them from developing skills and experience.

19. World Bank's World Development Indicators (WDI) database and ILO modeled estimates

20. Demographic dividend refers to an economy's growth resulting from a shift in the age structure of the population of a country.

14. Youth unemployment rates are higher than nonyouth unemployment rates, and this gap has been fairly consistent over the last 20 years. Based on data from the World Bank's World Development Indicators (WDI) database, when comparing general unemployment rates with youth unemployment, and considering the ratio of unemployment to youth employment

among countries in Sub-Saharan Africa, Zambia's ratio does not differ from the regional average (Figure 1.4). The country's general unemployment rate and youth unemployment rate have tended to move in tandem, thus keeping this ratio relatively stable. Young women have a slightly higher probability of being unemployed at 20 percent compared to young men at 18 percent.



Figure 1.3: Youth unemployment vs overall unemployment in Zambia and Sub-Saharan Africa

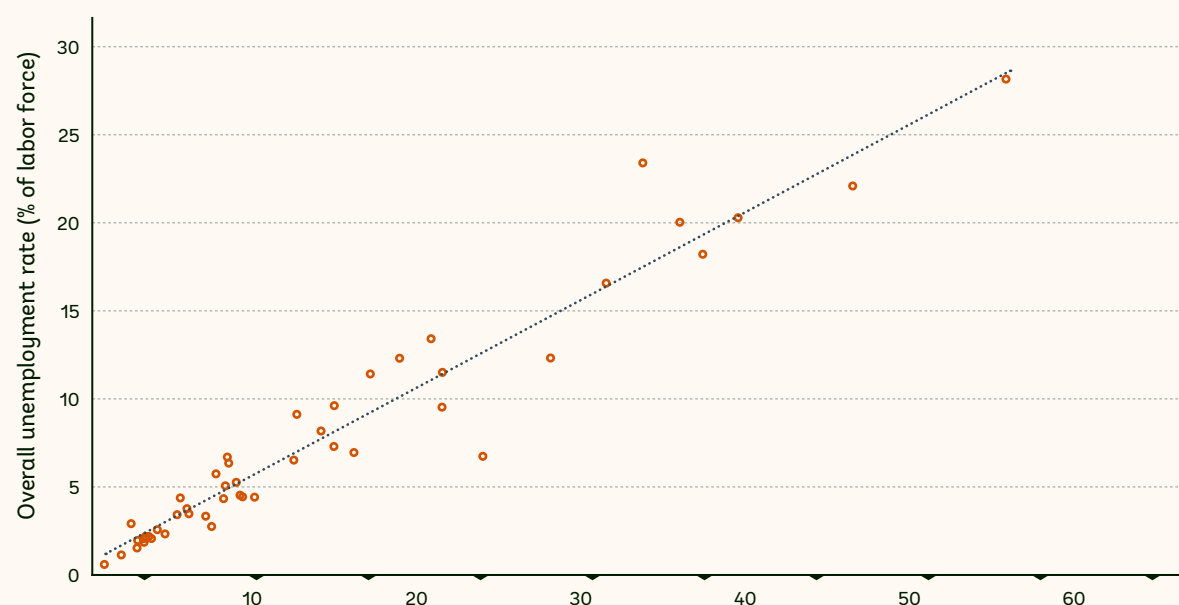
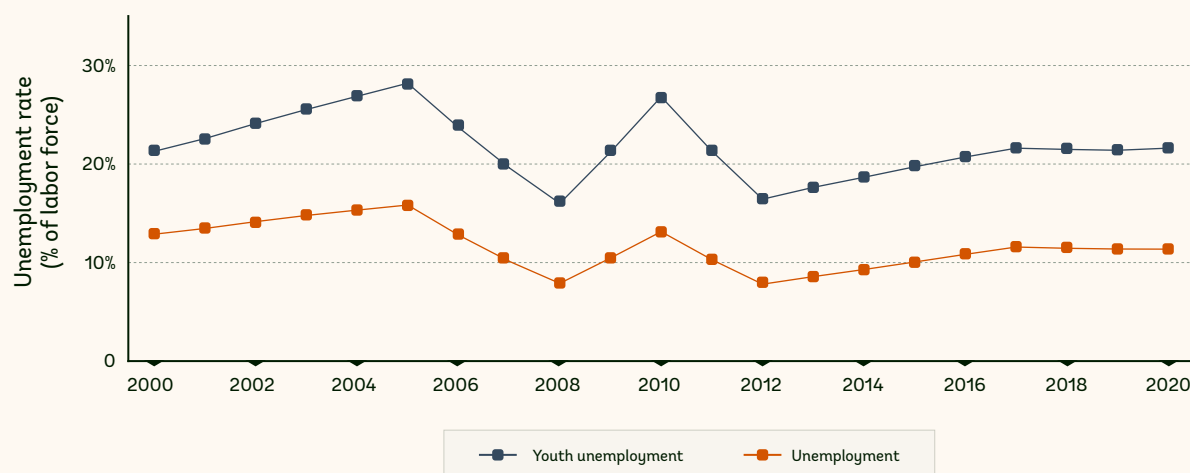


Figure 1.4: Trends in youth and overall unemployment in Zambia



Source: Adapted from World Development Indicators data 2000-2020.

1.2.

POVERTY AND INEQUALITY

15. Overall poverty is estimated to have consistently increased since 2015 and, in fact, has rapidly increased in 2020 driven by the COVID-19 pandemic. Paul et al. (2021) undertook a simulation exercise to chart out poverty trends between 2015 and 2019, with the aim of assessing the poverty impacts of the COVID-19 pandemic in 2020. The analysis shows that poverty²¹ increased by 1.4 percentage points between 2015 and 2019 to become 56 percent, and by 1.8 percentage points in 2020 alone to become 57.8 percent. The rise in poverty between 2015 and 2019 was a result of the back-to-back droughts in 2017 and 2018. On the other hand, COVID-19 related income shocks are expected to further increase poverty. This implies that an additional 2.3 million Zambians are poor in 2020 against 8.4 million in 2015. The 2020 Prevalence of Undernourishment (PoU) for Zambia has not been estimated due to insufficient data. However, it is likely that the country's PoU could have worsened compared to the 2019 estimation mainly due to the COVID-19 pandemic, droughts and floods.²² For the February to March 2021 projection period, an estimated 1.73 million people were likely to face high levels of acute food insecurity. The impact of COVID-19 has reduced households' ability to access food. COVID-19 will likely continue to pose risks to areas close to main urban centers, as cases increase through the country and if the government does not impose restrictions and lockdowns.²³

16. The increase in poverty in 2020 was driven largely by an increase in urban poverty as against the traditionally observed increase in rural poverty in previous years. Between 2015 and 2019, poverty in rural Zambia increased by 3.9 percentage points compared to a 0.5 percentage points decrease in urban poverty. Predominantly urban provinces such as Lusaka and Copperbelt saw a 0.8 percentage point decrease and only a 0.2 percentage point increase in poverty, respectively. The increase in poverty was highest in Eastern, Southern, and North-Western provinces (Figure 1.5). In 2020, on the other hand, urban poverty increased by 3.1 percentage points compared to a 0.8 percentage point increase in rural poverty. Evidently, the highest increase in poverty was in Lusaka and Copperbelt. Poverty in rural areas is expected to increase minimally due to the expectation of a better than usual agricultural season.

17. Phone-based surveys confirm increasing poverty levels due to the pandemic. The rapid phone-based survey (Finn and Zadel 2020) in June 2020²⁴ found: (a) 4 in 5 households reported a drop in income from nonfarm businesses, and one-third reported a drop in or disappearance of wages; (b) a considerable reduction in employment, with the hardest hit sectors being tourism, manufacturing and services; (c) an increase in food insecurity with 39 percent of households reporting having skipped a meal and 41 percent of households

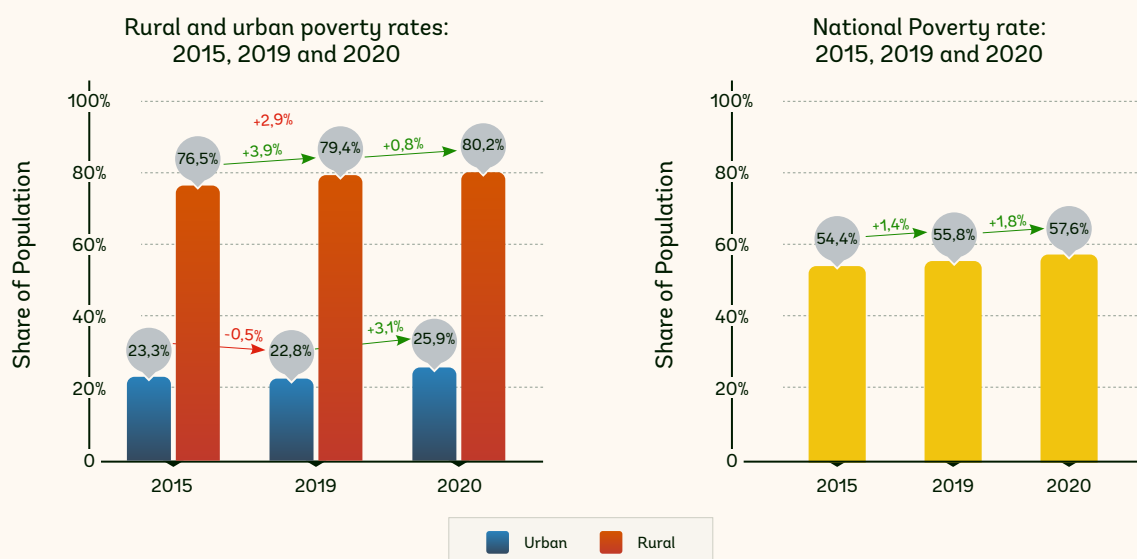
21. Poverty estimates are at the national poverty line, which is ZMW 214 per adult equivalent in 2015 terms.

22. Indaba Agricultural Policy Research Institute Lusaka, Zambia (2020). Zambia Food Security and Nutrition Report

23. The Integrated Food Security Phase Classification (IPC) (2020-2021).

24. Zambia COVID Phone Survey Round 1 (July 2020).

Figure 1.5: National poverty has been consistently increasing since 2015



Source: Paul, Boban Varghese, Arden Finn, Sarang Chaudhary, Renata Mayer Gukovas and Ramya Sundaram. 2021. "COVID-19, Poverty and Social Safety Net Response in Zambia", World Bank Policy Research Working Paper 9571.

reporting being concerned about running out of food; and (d) less than half of children who were in school before the pandemic were engaging in any learning after school closures. These findings are consistent across urban and rural households. These findings were similar to that from the Poverty Action's RECOVER survey in July 2020 which also highlighted that almost no household received food/cash from the government in response to COVID-19, i.e., about 3-4 months from its onset.²⁵

18. A remarkable feature of Zambian poverty is that it is predominantly rural and continues to be so despite the COVID-19 related spike in urban poverty. In 2020, rural poverty is expected to be 80 percent vis-à-vis an urban poverty rate of 26 percent. As a result, about 80 percent of the total poor, nationally, live in rural Zambia. The pandemic response is likely to adapt the highly rural-centric development paradigm to respond to urban needs; it is unlikely that it will change the overall dynamics of development programming in Zambia.

19. Natural disasters and market fluctuations are significant impediments to poverty alleviation and have been a common issue in Zambian even before COVID-19. The LCMS 2015 survey finds that about 56 percent of households' report facing a shock to

their welfare over the 12-month period preceding the survey. Figure 1.6 shows that the prevalence of shocks is highest in Western and Eastern provinces and lowest in Northern, Luapula and Lusaka provinces. At the same time, natural disasters are the most commonly reported type of shock followed by market fluctuations. Annex 1B provides further details of the definitions and findings.

20. Importantly, the type of shocks has changed quite substantially for rural households, with natural disasters becoming the most prevalent. In 2010, market fluctuations (in the form of price changes) were most reported type of shock commonly reported by both rural and urban households (40 percent each). By 2015, while urban households continued to experience this (30 percent), a substantially larger share of rural households reported natural disasters as the most prominent form of shock (37 percent versus 25 percent for price shocks). Since 2015, while conclusive evidence is not available on the nature of shocks, given the recurrent droughts, it is likely that the prevalence of natural disasters has only increased for rural households. On the other hand, COVID-19 related health shocks are likely to be most prominently reported by urban households.

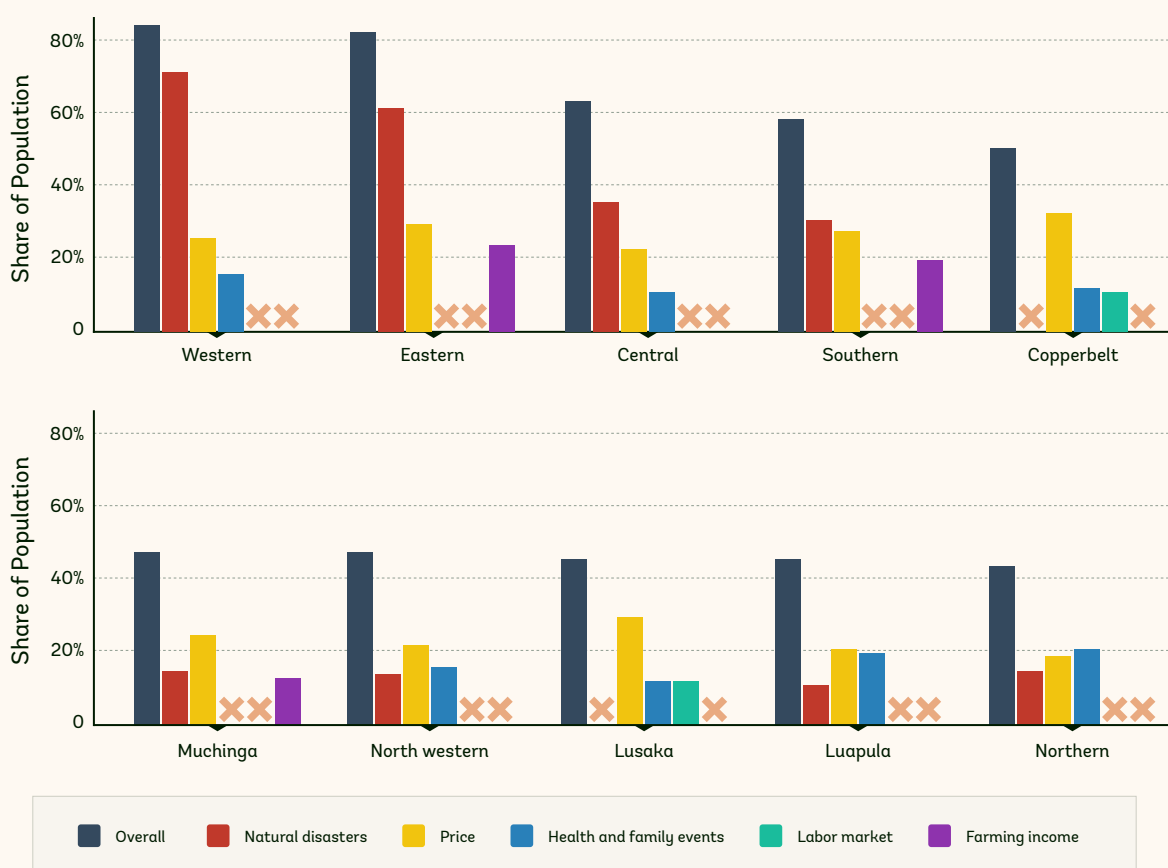
25. In Zambia, the survey is being conducted in partnership with the Ministry of General Education (MoGE) and the Ministry of Health to inform the government's policy responses. Dates of survey: June 15-July 6, 2020.

21. At the household level, in 2015, the prevalence of these shocks has been higher among poorer households. This analysis classifies households by their coping responses. Households were classified as “resilient” if they coped by drawing from their own savings, borrowing from different sources, seeking help from their networks, or temporarily increasing their labor supply. On the other hand, households were classified as “nonresilient” if they resorted to reducing food consumption, fire-selling productive assets, taking kids out of school, or migrating. The analysis finds that while 63 percent of households in the poorest quintile experienced a shock, only 41 percent of households in the richest quintile did so.

22. Without structural transformation and pro-poor growth, Zambia ranks among the most unequal nations globally. With a GINI index of 57.1, Zambia is the fourth most unequal country in the world, behind only South Africa, Namibia and Suriname. This inequality is evident in household incomes and in consumption patterns. The average income of the richest 10 percent of the population in Zambia was about five times that of the poorest 50 percent.²⁶ It also translates to geographic disparity in development. Economic activity continues to be along the line of rail from Livingstone, through Lusaka, to Copperbelt, with other parts of the country largely left out (Jobs Diagnostics Zambia 2017). About 80 percent of firms and 88 percent of



Figure 1.6: Prevalence and type of shock varies by province; natural disasters are most prominent



Source: LCMS 2015

26. <https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZM>

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jobs are in Copperbelt, Lusaka, Central and Southern provinces (Jobs Diagnostics Zambia 2017). Poverty has, as a result, also been more concentrated in some provinces than others, with Luapula, Western and Northern provinces being the worst off, and Lusaka and Copperbelt being among the least poor. (Zambia Systematic Country Diagnostic 2018)

23. While both men and women are similarly affected by poverty, female headed households are slightly more likely to be poor. Replicating the analysis of poverty by age group and by gender of household members shows that nationally about the same share of women and men live in poor households (approximately 54.4 percent). Analysis of poverty by gender of household, on the other hand, shows that female-headed households are slightly more likely to be poor (57 percent) than male-headed households (54 percent).

24. Women face a plethora of gender-based disadvantages including early marriage/pregnancy. Strikingly, about 80 percent of all women aged 25-49 years are married by the age of 25 years, compared to 55 percent for men in the same age group (DHS 2018). Overall, total fertility rate (TFR) is on the decline from 5.3 births per woman in 2011 to 4.6 births per woman in 2018, but is still among the highest among regional peers (countries with a higher TFR are Angola (5.5), Nigeria (5.4), Tanzania (4.9) and Benin (4.8)). Early marriage and childbearing, and high fertility have dire and detrimental health effects and a significant role in reducing women's ability to engage in other aspects of life such as completing their education which has dire effects on future earning potential and productive engagement in the labor market..

25. Gender-Based Violence (GBV) is a defining feature of the lives of women in Zambia. According to the Zambia DHS 2018, about 21 percent and 7 percent of girls aged 15-19 years have experienced physical violence or sexual violence, respectively. The prevalence of physical and sexual GBV more than doubles as women become older—by 49 years, about half of all women have experienced physical violence and almost a fifth have experienced sexual violence. Significantly, these figures may be under-reported.²⁷ The survey also finds that the most vulnerable (poorer households and widowed/separated/divorced) also face higher levels of physical or sexual GBV (Figure 1.7).

26. Zambia is a country of young people, with the majority of the population under the age of 18 (54.4 per cent). Many of these children are affected by both monetary and nonmonetary poverty—59.4 percent of children live in poor households, with 45.4 percent living in extreme poverty. Furthermore, 40.9 per cent of children suffer from at least three deprivations or more (e.g. lacking access to nutrition, education, health, water, sanitation, adequate housing).²⁸ Gender inequality, household poverty and the expansion of peri-urban populations are some of the systematic challenges to realizing the rights of children. Zambia's children also face challenges in health and nutrition. Between 2014 and 2018, neonatal mortality rates increased from 24 to 27 deaths per 1,000 births. 58 percent of children aged 6-59 months have anemia and only 23 percent of children 6-23 months are fed with recommended minimum dietary diversity.

27. The older persons (>64 years) are the most likely to be poor followed by minors (aged <18 years). Analysis of poverty by age group using LCMS 2015 data reveals that minors (60 percent) or individuals older than 64 years (64 percent) are more likely to live in poorer households than those in the age group 19-64 years (47 percent for 18-35-year-olds, and 52 percent for 36-64-year-olds). This has implications for the categorical targeting of programs and highlights the importance of looking at household composition in addition to characteristics of household heads. The analysis does not factor overall poverty changes between 2015 and 2020, as, due to data limitations, the simulations do not factor any household composition changes.

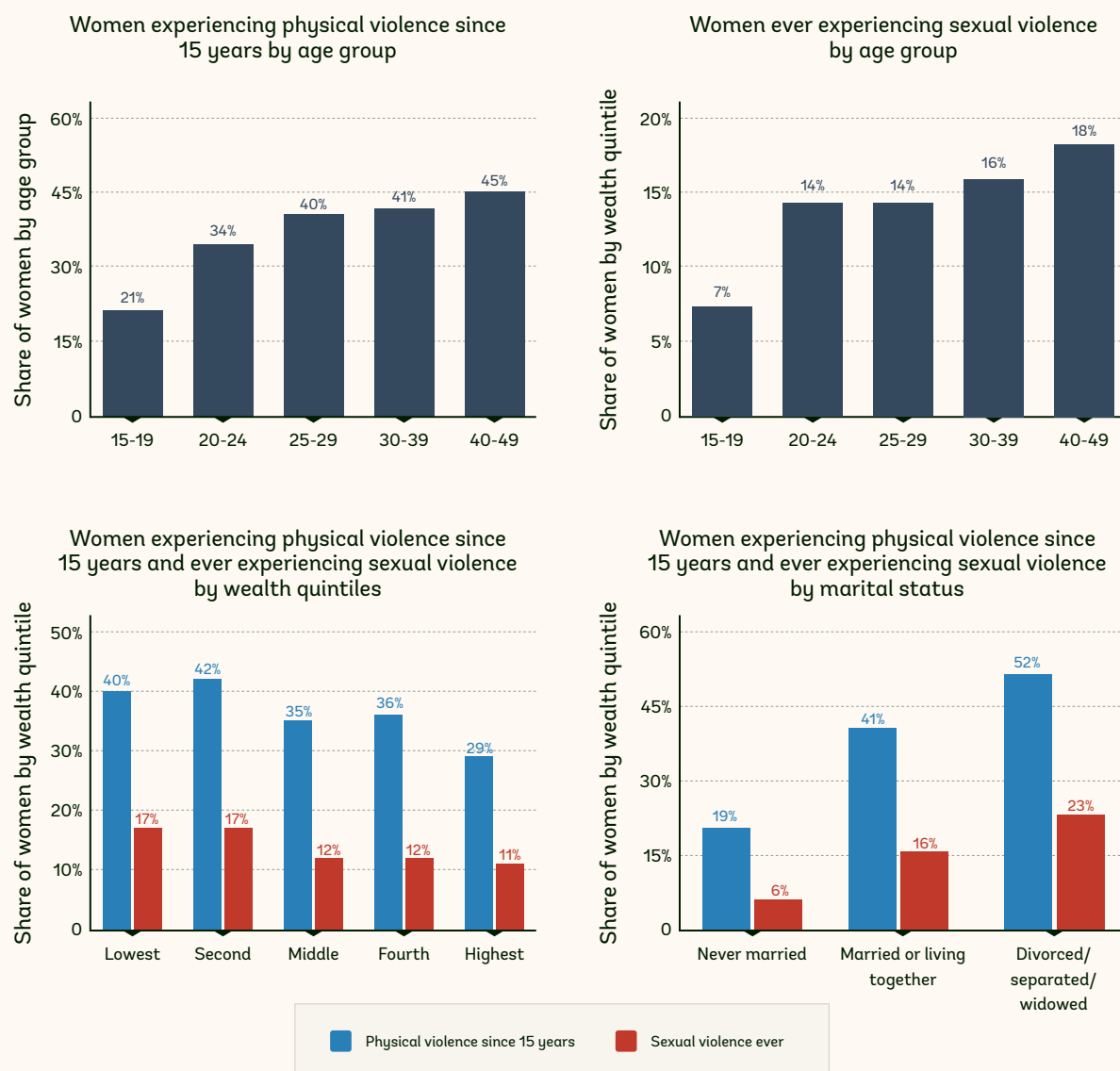
28. Older persons are regarded as those aged 65 and above. They account for 2.6 percent of the total population or 463,509 persons (of which 53 percent are women) (LCMS 2015). The number of the older has increased by over 100,000 in the last 10 years. This implies that more facilities and support programs need to be created for the older persons. At present, most of the older persons are cared for by family members in their homes. The remaining live either in private and state-run institutions or alone without adequate support.

27. Under-reporting to a household survey is less likely than reporting the incident formally to the police or other institutional mechanisms. Nevertheless, the reasons for formal reporting such as embarrassment or the belief that violence is a norm or concerns about its implications for other members of the family (Palermo et. al. 2013) could influence reporting to surveys too.

28. Report- <https://www.unicef.org/zambia/media/1176/file/Zambia-child-poverty-report-2018.pdf>



Figure 1.7: GBV affects a significant share of Zambian women, and especially those in poor households



Source: Zambia Demographic Health Surveys 2018

29. Among the major concerns for the older persons are cost of health care and inflation that have eroded the purchasing power of their pensions.

This is compounded by the fact that some pension schemes in Zambia do not have any provision for increases in the amount paid to the retiree. There are other concerns too. The older persons, especially those who reside in rural areas, may not be able to afford transportation costs and utility expenses. Many of them live in poor housing

conditions whether at home (often living alone) or in state-run homes (some of which are operated privately). Those with chronic illnesses may be deserted due to pandemic-related fear and be unable to look after themselves. Like other vulnerable groups, the older persons are disproportionately affected by lockdown as it affects their ability to obtain an income. This makes it challenging for the government to implement stringent lockdown measures to address the health challenges of the pandemic.²⁹

29. UNICEF 2020. Social Protection response to the COVID-19 epidemic in Zambia



30. According to the 2015 National Disability Survey, prevalence of disability was estimated to be 10.9 percent among adults (18+ years).

It was higher in urban than in rural areas (11.6 percent vs. 10.5 percent), and higher among females than males in urban areas (12.8 percent vs. 10.3 percent), but the other way around in rural areas (10.7 percent vs. 10.5 percent). Among children (2-17 years), the prevalence was estimated to be 4.4 percent. Prevalence varied between the provinces, with the highest estimates in Luapula and Copperbelt provinces among both adults and children. The 2015 National Disability Survey also identified and measured gaps in access to services as a proportion of those who needed a service but did not access it. Empowerment programs (94.3 percent), welfare services (93.4 percent) and legal aid (84.7 percent) had the largest gaps, while the lowest were in health services (8.1 percent) and health information (9.9 percent).

31. Poverty is disproportionately concentrated among households headed by persons with disabilities, with COVID-19 further affecting them.

According to the 2015 Living Conditions Monitoring Survey (LCMS), the poverty rate among households headed by persons with disabilities is 76 percent (87 percent in rural areas and 45 percent in urban areas) compared to an overall poverty rate of 54.4 percent. People with disabilities also suffer from nutritional deficits and are often subjected to stigma, discrimination and abuse (sexual, physical and verbal). Some disabilities depend on human support, which may be constrained due to social distancing requirements, and some disabilities make it more difficult to access critical information on COVID-19 precautions. The majority of persons with disabilities rely on informal and unpaid family support—this puts them in a difficult situation if either they or their usual support persons get infected or are at risk. The economic impact of COVID-19 is also felt severely by households headed by persons with disabilities as evidenced by the fact that poverty among urban households headed by persons with disabilities increased by 6 percentage points against the overall increase of 3 percentage points in urban areas, and 2 percentage points among rural households headed by persons with disabilities against the overall increase of 0.8 percentage points in rural areas.

1.3.

HUMAN CAPITAL INVESTMENTS

32. Human capital has shown significant improvements in terms of health outcomes and education access, but without similar gains in quality of education (Figure 1.8).

On the health side, stunting rate (as a share of children aged <5 years) decreased from 53 percent in 2000 to 40 percent in 2013 to 35 percent in 2018. Similarly, survival rate (aged 15-60 years) improved from 41 percent to 73 percent between 2000 and 2018, and probability of survival to age 5 years improved from 84 percent to 94 percent in the same time period. On the education side, net primary school enrollment increased from 66 percent to 83 percent, and net secondary school enrollment increased from 15 percent to 29 percent between 2000 and 2013. Nevertheless, the quality of learning, measured in terms of harmonized test scores,³⁰ has remained largely stagnant. A child born today in Zambia is expected to complete 8.8 years of education by age 18, compared to a regional average of 8.1. In addition, due to low levels of learning achievement, this is only equivalent to 5 years of learning, with 3.8 years as “lost” due to poor quality of education.

33. Even though human capital is a key ingredient for higher income and growth, the 2020 World Bank’s HCI shows that the country is underinvesting in the future productivity of its citizens (Figure 1.9). Zambia’s Human Capital Index (HCI)³¹ is 0.397 which implies that a child born today can expect to be only 39.7 percent as productive as she would be had she attained complete education and full health.³² Zambia ranks 150 out of 174 countries in terms of HCI.

The Sub-Saharan Africa Lower Middle-Income country average for HCI is 0.48 (Sub-Saharan Africa average of 0.40), implying that Zambia is remarkably underinvesting in its people’s human capital. This is a critical challenge for the country’s future development and achievement of its vision.

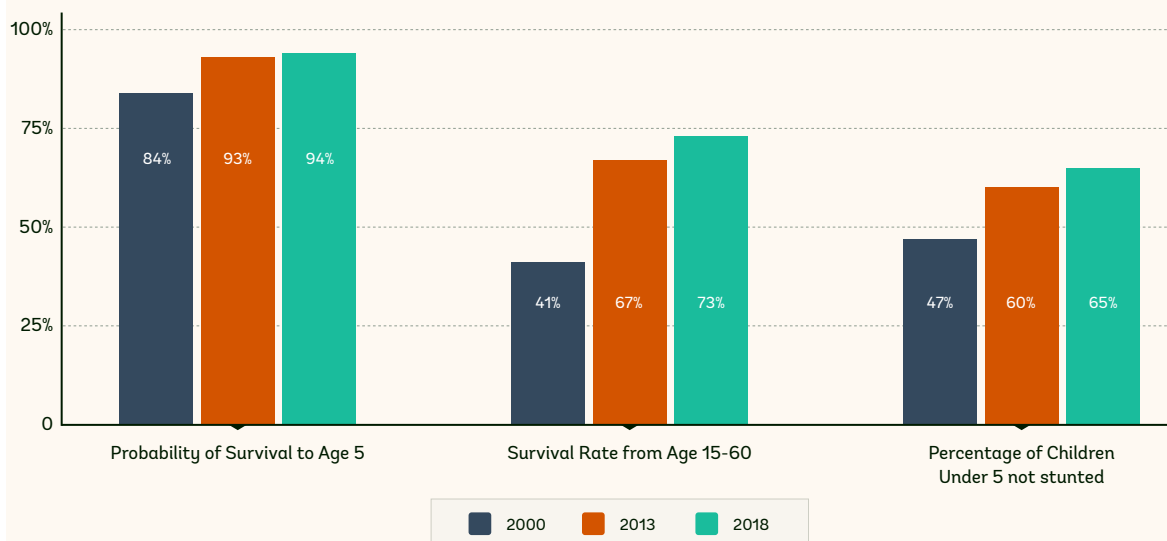
34. Results for Zambia show some regional variation in the subnational HCI. Figure 1.10 shows the distribution of the composite HCI by provinces in Zambia. It also reports HCI indicators whenever province level information was available. The overall HCI is the lowest in Luapula (0.35) and Eastern (0.37) provinces. The highest HCI was observed in Lusaka and Copperbelt (both at 0.43). Previous results on child poverty using the 2015 LCMS showed lower poverty headcount levels in Copperbelt and Lusaka (34 and 19 percent) whereas child poverty levels were estimated above 61 percent for all other regions, including Luapula and Eastern (84 and 76 percent).

35. The expected years of school are a major driver behind the subnational variation. Total net enrollment rates were calculated using the DHS 2018, with expected years of school (EYS) calculated using duration of 4, 7, 2, and 3 years for pre-primary, primary, lower and upper secondary school, respectively, and rescaled to a maximum of 14 years of school. Panel b in Figure 1.10 shows that the EYS variation is similar to the overall HCI, with Luapula and Eastern provinces presenting the lowest education outcomes and Lusaka and Copperbelt the highest.

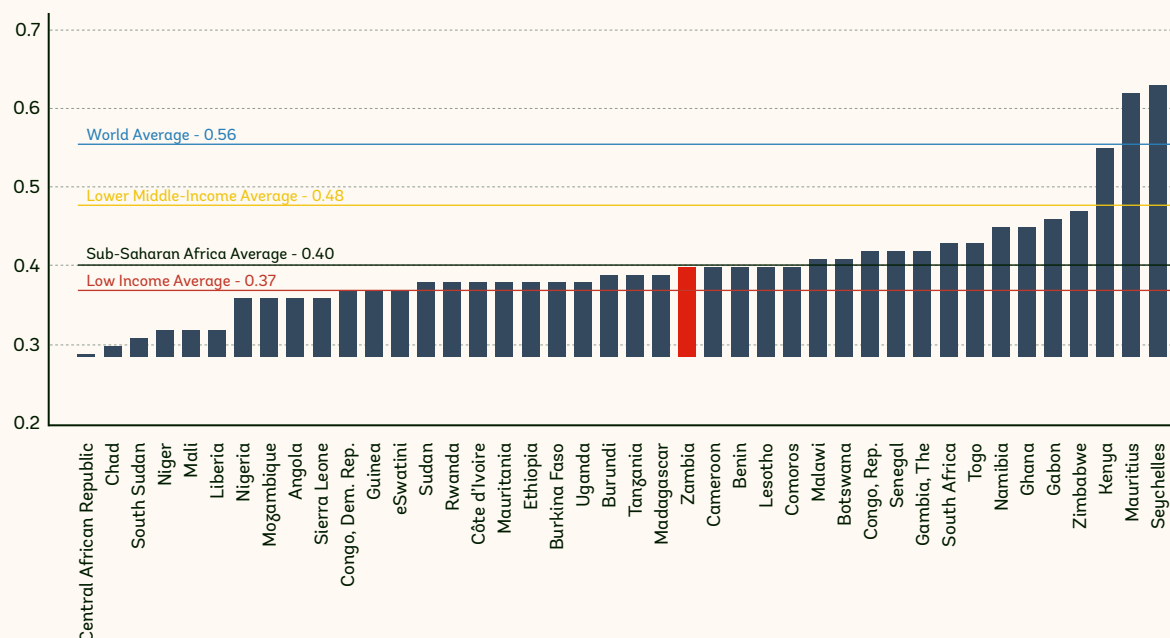
30. SACMEQ harmonized test scores were 336 in 2000 and 358 in 2013, against a benchmark of 625.

31. Measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives.

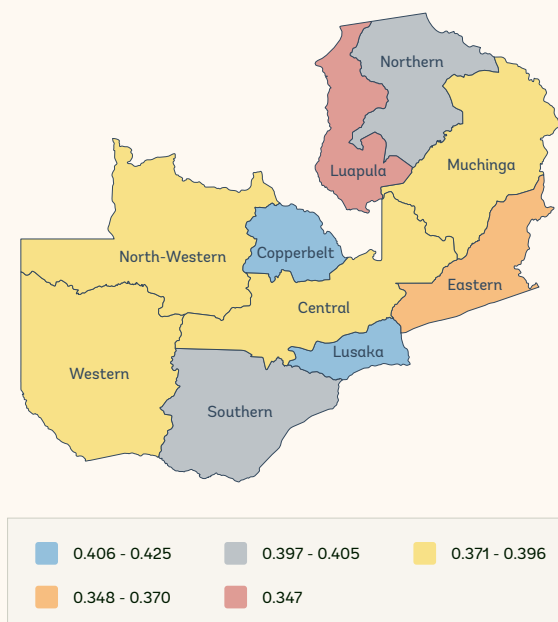
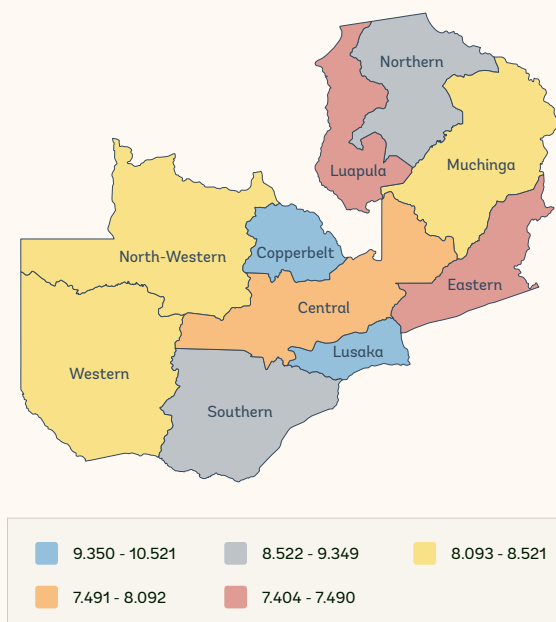
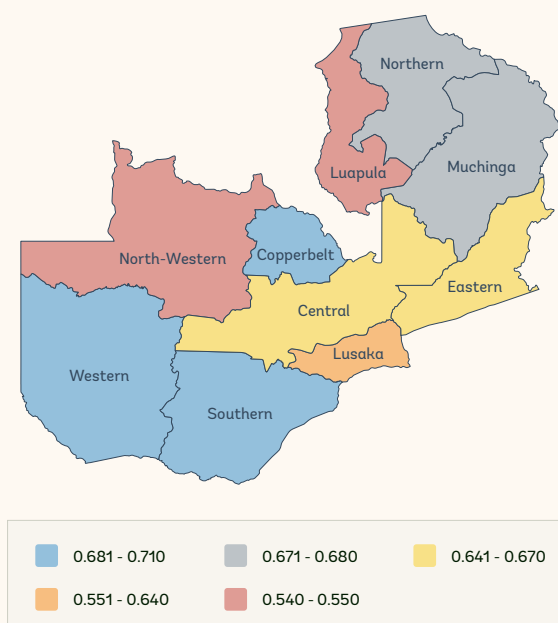
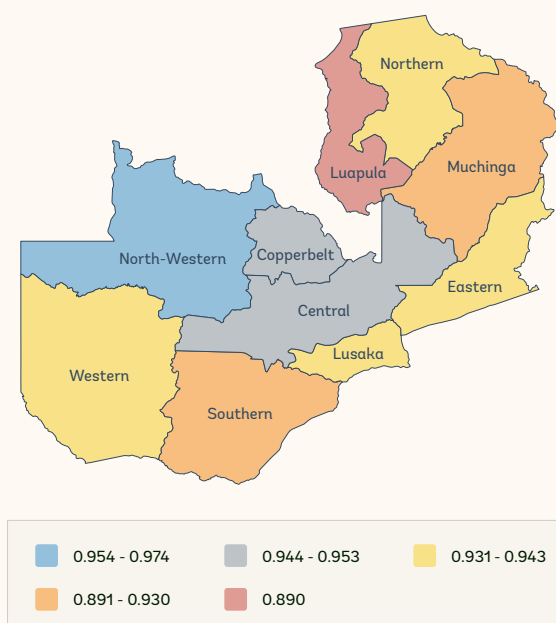
32. No child <5 years stunted, 100 percent probability of survival to age 5 years, 100 percent probability of survival 15-60 years, 100 percent school enrollment and full test scores for all.


Figure 1.8: Changes in Survival and Health Indicators


Source: Author's calculations based on LCMS 2015, Demographic Health Survey 2018, SACMEQ 2013, Expected Years of School (EYS) and Harmonized Test Scores (HTS), and UN Population Division, World Population Prospects 2019.


Figure 1.9: Human Capital Index in Sub-Saharan Africa


Source: Author's calculations based on LCMS 2015, Demographic Health Survey 2018, SACMEQ 2013, Expected Years of School (EYS) and Harmonized Test Scores (HTS), and UN Population Division, World Population Prospects 2019.


Figure 1.10: Sub-National Human Capital Index and components
A: Sub-regional Human Capital Index

B: Expected Years of Schooling

C: Percentage of children not stunted

D: Probability of survival to 5 years


Source: Author's calculations based on LCMS 2015, Demographic Health Survey 2018, SACMEQ 2013, Expected Years of School (EYS) and Harmonized Test Scores (HTS), and UN Population Division, World Population Prospects 2019.

ES	<p>36. Regional disparities exist in terms of both poverty rate and human capital accumulation, but the spatial link between the two is less evident (Figure 1.11). Subnational HCI in Zambia was calculated at the province level, based on the latest household survey data available to cover the different survival, health, and education indicators. (Annex 1C provides detailed information about the sources and definitions for each of the indicators). As expected, some provinces do better than other in terms of HCI. While the variation in poverty rate of the province is certainly linked to this variation in HCI, the link is not strong. For example, while Western and Northwestern provinces have very different poverty rates (83 percent and 69 percent, respectively), their HCI scores are the same. On the other hand, Luapula has the highest poverty rate and lowest HCI.</p>	<p>working with the poorest households, Social Protection and Jobs (SPJ) programs, could help improve their human capital.</p>
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	<p>37. Most of the variation in the socioeconomically disaggregated Human Capital Index (SES-HCI) results from differences in expected years of school and stunting rates. In Zambia, the productivity as a future worker of a child born today in the richest 20 percent of households is 52 percent; it is 41 percent for a child born in the poorest 20 percent. This is a gap of 11 percentage points.³³ As presented in Annex 1D, the major factor behind the gap is the difference observed in expected years of school by socioeconomic status, followed by the percentage of children who are not stunted.</p>	<p>39. Global studies reveal that COVID-19's impacts will not only affect those that are directly impacted, but will be felt across the population and, in many cases, across generations, eroding decades of progress in HCI.³⁵ From a health sector standpoint, the usual vaccination programs will be interrupted, service delivery capacities will be weakened and access to other critical services will be curtailed resulting in above normal human losses. It is estimated that over the coming five years, global deaths due to tuberculosis, HIV, and malaria will increase by 20 percent, 10 percent, and 36 percent, respectively.³⁶ At the same time, with lockdowns resulting in school closures and the shift to remote learning in some form, there will likely be a slowdown and loss of learning, and an increased likelihood of school dropout, particularly for the most disadvantaged and for girls. The most recent global projections on the impact of school closures linked to COVID-19 suggest that, using the HCI metric of learning-adjusted years of schooling, almost 0.6 years will be lost due to the closures. Such closures and shifts to remote learning can, in many cases, make social inequalities more salient; it can worsen the learning gaps between children with a more affluent background and those who are less well off. Because demand for investing in human capital rises with incomes, a fall in incomes could worsen human capital accumulation for many people, especially the disadvantaged. Additionally, due to COVID-19-induced income effects, many households will likely experience food insecurity and worsening nutrition levels, resulting in higher child mortality and stunting rates (World Bank 2020).</p>
	<p>38. At the household level, there is a strong link between income/consumption and human capital accumulation. As shown in Figure 1.12, poorer households' human capital accumulation is worse than that of the nonpoor consistently over time.³⁴ However, the greatest improvement in human capital accumulation was shown by the poorest households. By</p>	

33. This version of the SES-HCI relies on the same general methodology as the global HCI but uses different data sources to allow for this disaggregation, and so is not directly comparable with the global HCI. Also, expected years of school is calculated for children aged 6 to 17 years old and is, therefore, not comparable to the subnational disaggregation. Finally, the source of the harmonized test scores is the Early Grade Reading Assessment (EGRA) 2011, and the health component did not include the adult survival indicator. For details on the data and methodology of the SES-HCI, see "A Socioeconomic Disaggregation of the World Bank Human Capital Index" by D'Souza, Gatti and Kraay (2019).

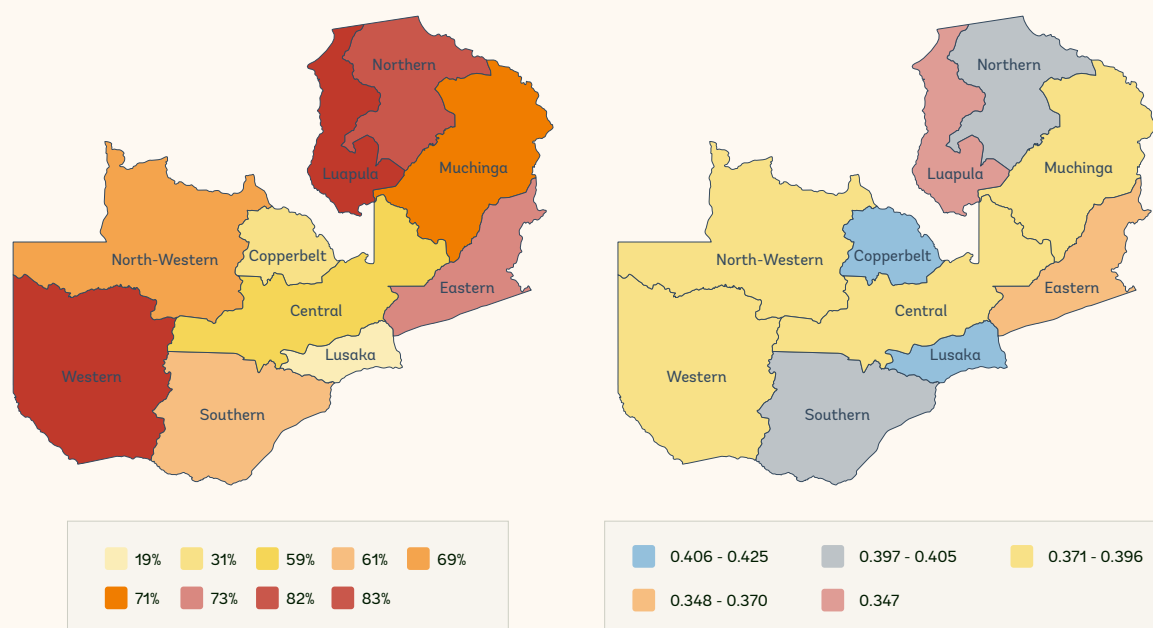
34. This version of the SES-HCI relies on the same general methodology as the global HCI but uses different data sources in order to allow for this disaggregation, and so is not directly comparable with the global HCI. Also, expected years of school is calculated for children aged 6 to 17 years old and is, therefore, not comparable to the sub-national disaggregation. Finally, the source of the harmonized test scores is the EGRA 2011, and the health component did not include the adult survival indicator. For details on the data and methodology of the SES-HCI, see "A Socioeconomic Disaggregation of the World Bank Human Capital Index" by D'Souza, Gatti and Kraay (2019).

35. World Bank 2020. The Human Capital Index 2020 update: Human Capital in the time of COVID-19

36. See Hogan et al. (2020).



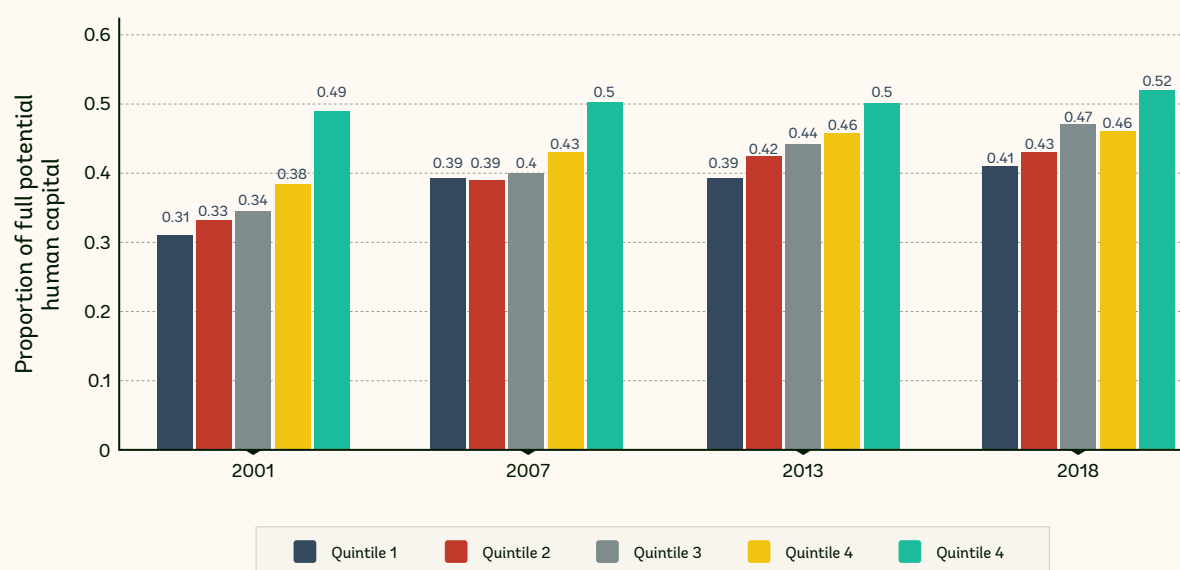
Figure 1.11: Poverty and HCI vary across provinces but the link between the two is less clear



Source: Author's calculations based on LCMS 2015, Demographic Health Survey 2018, SACMEQ 2013, Expected Years of School (EYS) and Harmonized Test Scores (HTS), and UN Population Division, World Population Prospects 2019.



Figure 1.12: Poorer households show lower levels of human capital accumulation



Source: D'Souza, Gatti and Kraay 2019, and Author's calculations based on LCMS 2015, Demographic Health Survey 2018, EGRA 2011, Expected Years of School (EYS) and Harmonized Test Scores (HTS), and UN Population Division, World Population Prospects 2019

7NDP AND MOVING TOWARDS THE VISION 2030

The Government of the Republic of Zambia (GRZ) has an ambitious long-term vision for the nation and its people. This Vision 2030 outlines improvement in well-being of Zambian people by focusing on four strategic areas: economic diversification and sustainable growth, poverty and inequality reduction, enhancing human development, and creating a conducive governance environment to support these changes. The Seventh National Development Plan (7NDP) 2017-21 outlines goals for each strategic area and provides clear short-term targets to achieve these goals.

The following issues are explored in the 7NDP,³⁷ in line with the Vision 2030:

Accelerating economic diversification: It is imperative that the government fully exploits the country's resource endowments and diversifies away from copper while expanding job opportunities. The Zambian economy remains dependent on mining, with copper contributing approximately 77 percent to total exports. Diversifying away from copper is essential for shielding the economy from the effects of adverse commodity price fluctuations. Adverse movements in the international price of copper have a history of destabilizing the economy as occurred in 2015 when the Zambian economy experienced three simultaneous shocks to domestic output (poor harvest, power crisis and sharply falling copper prices) which combined to place significant downward pressure on the exchange rate, upward pressure on domestic prices and created further fiscal pressures. The contribution of mining to GDP marginally fell by 0.2 sectoral GDP shares between 2010 and 2015. The other sectors—agriculture, manufacturing and tourism (accommodation and food services)—saw reductions of 4.9, 0.4 and 0.1, respectively, in their contributions to GDP. Progress toward diversification should show a much bigger reduction in the contribution of mining to GDP and increases in other sectors.

Building a strong manufacturing and industrial base: A broad-based and buoyant manufacturing and industrial base is key to building a strong export-oriented economy that can create resilience in the economy to both external and domestic shocks. This is crucial to ensuring a stable foreign exchange, enhanced foreign currency reserves, stable inflation, more decent jobs and an expanded capital base for the economy, among other things. A strong manufacturing and industrial base also helps in forging backward and forward linkages between primary, secondary and tertiary industries and ensures sustained circular flow of resources within the economy while bolstering job creation. The manufacturing sector contributed about 8.6 percent to GDP in the period 2006-2010. However, the sector's contribution fell to 6.2 percent in the 2011-2015 period.

Promoting graduation of micro- and small- to medium-scale enterprises (MSMEs): Recognizing the positive correlation between the growth of MSMEs and job creation, efforts will be made to address factors that impinge on the growth of MSMEs. These factors include prohibitive interest rates, lack of collateral to enable entrepreneurs borrow and expand their businesses, poor access to technology, weak entrepreneurial culture, weak collaboration among indigenous businesses and a weak policy environment to support MSME growth.

Investing in human capital development: Even though Zambia is well within the Vision 2030's objective of maintaining the unemployment rate below 10 percent, the country still lacks adequately skilled workers. The major challenge that the country faces is that most workers enter the labor force after dropping out of school and without attaining basic numeracy, ICT and literacy skills. The government will, in an effort to improve the skills of the workforce, promote a bias toward training programs and investments in technical and vocational skills that tend to promote self-employment, especially among the youth. Vulnerability of the economy should be tackled on various fronts, one of which should include focusing on the country's human capital, especially the youth, to effectively participate in employment opportunities that may arise from increased economic activities in sectors that will drive economic diversification. Moreover, efforts will be made to match investment prospects that tend to define future labor characteristics to the supply of skills. During the 7NDP period, the government will facilitate investment in generating information on job prospects and strengthen the interface between job seekers and the market.

Strengthening governance mechanisms and institutional capacities: To accelerate attainment of a diversified and inclusive economy, good governance is imperative. This implies improving the policy environment, transparency and accountability, accelerating decentralization and devolution to local authorities and improving the rule of law, human rights and constitutionalism.

37. Excerpt from 7NDP Plan 2017-2021

TYPOLGY OF SHOCKS AND COPING STRATEGIES

The coping strategies reported by households should be analyzed to gauge the level of resilience of the household. 'Resilient' households can effectively minimize the negative consequences of a shock via personal savings, borrowing from different sources, seeking help from their networks or temporarily increasing their labor supply. 'Nonresilient' households are not able to absorb shocks on their own and avoid incurring significant harm. They turn to extreme coping measures including fire- selling productive assets, taking kids out of school or migrating. In doing so, they mitigate the immediate effects of the shock at the cost of lower human capital or earning potential for some members of the household.



Table 1B.1: Coping strategies that signal resilience and those that signal nonresilience.

NEGATIVE SHORT- TERM COPING	NEGATIVE LONG-TERM COPING	SHOCKS ABSORBED				
		Rising labor supply	Savings/ Insurance Borrowing	Help from government / NGO	Help from networks	Others
Reducing number of meals or food-in-take	Sold animals	Grew / sold additional / other crops	Spent savings	Sought/got help from government	Received/ asked for gifts/ assistance from relatives/ friends/other persons	Reduced non- food expenses
Substituting ordinary meals with mangoes	Sold assets	Worked more hours	Use insurance	Sought/obtained help from ngo/ international organization	Got help from religious organization	Working on ' food-for-work or work-for- assets' program
Eating wild foods only	Sold farm land	Started business	Borrowed money from relatives/ friends/other persons	Govt cash transfer	Sought refuge with neighbours	No response
Bought cheaper food	Went elsewhere / migrated to work	Petty vending	Borrowed from money lender		Sought refuge with neighbours	Other
Bought less food	Sent children to work/sell	Piece work on farms belonging to other households	Borrowed from bank/ other financial institution/ employer		Remittances from other households/ persons	'Did nothing'
	Pulling children out of school	Other piece work				
	Begging from the streets					
	Sent children to relatives or friends					
	Travelled/ migrated to seek health care					

SUB-NATIONAL HCI INDICATORS: DATA SOURCES AND DEFINITIONS

The sub-national HCI is a provincial-level indicator of the effectiveness of social investments in health, education and nutrition, calculated based on five indicators: probability of survival to age 5, expected years of schooling, quality of learning, adult survival rate, and the proportion of children who are not stunted. Among the five indicators used to calculate the composite HCI in Zambia, probability of survival to age 5, total net attendance rates and the proportion of children who are stunted could be retrieved at the province level using the 2018 Zambia Demographic Health Survey (DHS). While it was not possible to include the sub-national variation in terms of adult survival and learning outcomes, the national estimates were used to calculate the final sub-national scores.



Table 1C.1: HCI Indicators, source and definition

INDICATOR	SOURCE	DEFINITION
Probability of Survival to Age 5	DHS 2018	Probability of survival from birth to age 5, based on estimates of under-5 mortality rates for the 10-year period preceding the survey. Frontier is 100 percent survival to age 5.
Expected Years of School (EYS)	DHS 2018	Calculated using the total net enrollment rates for preprimary, primary, lower and upper secondary school levels and rescaled to a maximum of 14 years, where the total net enrollment ratio is the number of boys and girls of the age of a particular level of education that are enrolled in any level of education, expressed as a percentage of the total population in that age group.
Harmonized Test Scores (HTS)	SACMEQ 2013	Test scores have been harmonized into equivalent units to the Trends in International Mathematics and Science Study (TIMSS), i.e. a mean of 500 and a standard deviation of 100 across students in OECD countries. Frontier is 625, corresponding to the benchmark of advanced achievement in TIMSS.
Learning-adjusted years of school (LAYS)	EYS and HTS	The learning-adjusted years of school were generated by multiplying expected years of school by the ratio of test scores to 625.
Probability of Survival from Age 15-60	UN Population Division, WPP 2019	Probability of survival from age 15 to age 60, based on estimated mortality rates over this age range. Data are reported for 5-year intervals and have been linearly interpolated to annual frequency. Frontier is 100 percent survival of all adults to age 60.
Percentage of Children Under 5 Not Stunted	DHS 2018	Fraction of children below the age of 5 whose height-for-age is not two or more standard deviations below the reference median for normal child development (i.e. 1-stunting rate). Frontier is zero stunting rate.

SES-HCI SAMPLE CALCULATION

The SES-HCI is computed using the same methodology as the global HCI but relies on different data sources to allow for a disaggregation by socioeconomic status (SES). The differences in data sources imply that the SES-HCI data at the quintile level, and averaged to the national level, are not fully comparable or consistent with the global HCI. However, the SES-HCI can still prove informative about gaps in human capital outcomes across quintiles.³⁸



Table 1D.1: Human Capital Index disaggregation by income profiles.

	1ST QUINTILE (POOREST)	2ND QUINTILE	3RD QUINTILE	4TH QUINTILE	5TH QUINTILE (RICHEST)	AVERAGE
Component 1: Survival						
Probability of Survival to Age 5 (0-1)	0.933	0.933	0.947	0.924	0.943	0.936
Contribution to productivity as future worker (A)	0.93	0.93	0.95	0.92	0.94	0.94
Component 2: School						
Expected Years of School (0-14)	7.2	8.2	9.1	9.9	11.2	9.1
Harmonized Test Score (300-625)	310	307	313	311	313	311
Learning-Adjusted Years of School	3.6	4.0	4.6	4.9	5.6	4.5
Contribution to productivity as future worker (B)	0.51	0.53	0.55	0.57	0.60	0.55
Component 3: Health						
Percentage of Children Under 5 Not Stunted (0-1)	0.599	0.634	0.671	0.647	0.761	0.654
Contribution to productivity as future worker (C)	0.87	0.88	0.89	0.88	0.92	0.89
SES-Disaggregated Human Capital Index (A x B x C)	0.41	0.43	0.47	0.46	0.52	0.46



Source: This version of the SES-HCI relies on the same general methodology as the global HCI but uses different data sources in order to allow for this disaggregation, and so is not directly comparable with the global HCI. Also, expected years of school is calculated for children aged 6 to 17 years old and, therefore, not comparable to the subnational disaggregation. Finally, the source of the harmonized test scores is the EGRA 2011, and the health component did not include the adult survival indicator. For details on the data and methodology of the SES-HCI, see "A Socioeconomic Disaggregation of the World Bank Human Capital Index", by D'Souza, Gatti and Kraay (2019).


38. <https://www.worldbank.org/en/publication/human-capital/brief/insights-from-disaggregating-the-human-capital-index>





2 SOCIAL PROTECTION AND JOBS

Social Protection and Jobs to Achieve Zambia's Development Goals

- 2.1.** Scope of Analysis and Data
 - 2.2.** Overview of sector's role and current status
 - 2.3.** Key future strategic directions – the SIMPLE strategy
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2.1.

SCOPE OF ANALYSIS AND DATA

40. The key objective of public expenditure review exercise in Zambia is to assess and improve the efficiency of public spending on social protection programs. Public expenditure review (PER) will establish the SPJ spending both in terms of budget allocation and actual expenditures and will serve multiple purposes such as consolidation of fiscal sustainability for SPJ sector, helping optimize overall SPJ expenditure by means of reallocating resources from low performing programs to high-priority and high-performing ones. The expenditure review process also includes high level strategic considerations to align social protection programs with the government's policy priorities. Additionally, the goal of PER is to analyze the effectiveness of the performance of existing social protection programs in terms of coverage, targeting, adequacy, and impact and provide guidance to various line ministries to reduce fragmentation as well as build synergies across the SPJ programs.

41. This review focuses on three key pillars of the sector. The National Social Protection Policy (NSPP) in Zambia defines four pillars—social assistance, social security/ insurance, livelihoods and empowerment and protection.³⁹ (a) Social assistance programs comprises of cash transfers (unconditional and conditional), social care programs (such as for the old or sick or young), emergency transfers in response to shocks or to refugees, and food (both in-kind and near-cash transfers such as food vouchers), bursary programs or transportation cost waivers. (b) Livelihoods and Empowerment programs includes active labor market programs (such as trainings, start-up capital, savings group formation, wage subsidies), passive labor market programs (such as unemployment

benefits or severance pay), labor market policy services (including intermediation), and economic inclusion programs (aimed at the extreme poor and vulnerable, through a bundled set of interventions to tackle the multiple constraints they face).⁴⁰ (c) Social security or Social Insurance programs include contributory or earnings-related pensions and savings programs, health insurance, maternity/ paternity benefits, and occupational injury benefits. And, (d) the interventions under protection ensure appropriate laws are in place, raise awareness of legal rights, enforce the law against offenders, and provide appropriate support for victims.

42. While the overall budget and expenditure analysis in Chapter 2 includes all of the above pillars and programs, the deep-dive analysis in each of the remaining chapters focus on Social Assistance, livelihoods and empowerment (hereby referred as Jobs and Economic Inclusion (JEI)) and Pensions. Additionally, the Farm Input Subsidy Programme which, as per the NSPP, is part of the JEI pillar is included in the analysis in report only as necessary to avoid skewing the results of the overall and JEI specific analysis. However, a brief analysis of FISP is provided in this chapter (Box 3) which covers the spending analysis and impact of the program. Table 2.1 provides the list of programs included in the analysis by pillar.

43. The analysis focuses on three key aspects—Spending, Total Coverage, and Performance—across three pillars. A brief high-level summary of the analysis, data and methodology and individual chapters provide much more in-depth details and analysis.

³⁹ The interventions under protection pillar in Zambia aims to strengthen legal rights for all citizens along with poor and vulnerable. Since these programs are not part of classical social protection and jobs sector, they are not reviewed in this PER

⁴⁰ The State of Economic Inclusion Report 2021: The Potential to Scale


Table 2.1: Programs covered in the PER by pillars⁴¹

SOCIAL ASSISTANCE	JOBS AND ECONOMIC INCLUSION	PENSIONS
<ul style="list-style-type: none"> ● Social Cash Transfer (SCT) ● GEWEL - Keeping Girls in School (KGS) ● Home-Grown School Meals Programme (HGSM) ● Public Welfare Assistance Scheme (PWAS) ● Orphans & Vulnerable Children (Bursary) (OVC) ● Support to Child- and Aged-headed households ● Care for Older Persons 	<ul style="list-style-type: none"> ● GEWEL - Supporting Women's Livelihood (SWL) ● Food Security Pack (FSP) ● Women Economic Empowerment Fund ● Youth Development Fund (YDF) ● Village Banking (VB) ● Youth Innovation Fund (YIF) ● Skills Development Fund (SDF) ● Technology Development Fund (TDF) ● Emergent Farmers Support Fund (EFSP) ● Decent Work Promotion (DWP) ● Enforcement of Labor Laws ● Self-Help Groups (SHGs) 	<ul style="list-style-type: none"> ● National Pension Scheme Authority (NAPSA) ● Public Sector Pension Fund (PSPF) ● Local Authorities Superannuation Fund (LASF).

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44. As part of spending analysis, the size, growth, share and trends of budget allocation and expenditures are analyzed for SPJ overall and for the three pillars. Spending analysis is based on social protection budget lines from the audited annual financial statements of the Ministry of Finance (MOF) from 2014-2018 and Yellow Book from 2019-2021. Budget allocation is defined as the total authorized budget provision which includes approved annual budget estimates and supplementary estimates, or savings declared. Actual expenditure is defined as the amount of budget allocations spent on program implementation. Execution rate is defined as the share of actual expenditure in the total authorized budget (approved and supplementary) provision. Spending analysis is in nominal terms as trends over time are generally described as share of GDP. Note that this includes both Government financing and Donor financing. Donor financing is defined as any resources provided by donors in the form of grants or concessional credit (World Bank). Pension Reform Options Simulation Toolkit (PROST) is used in the Pensions chapter to assess the financial sustainability of pension schemes as well as model various reform options (See Annex 5A for more details).

45. Total coverage is estimated for individual pillars. Total coverage is the sum of all beneficiaries covered by all the programs for each pillar. In the absence of a single social/beneficiary registry it was challenging to find overlaps across programs, therefore, the total coverage estimates are likely an upper bound estimate, assuming no overlap across specific programs in each pillar. To provide a sense of overall coverage, the total population of Zambia is compared to the population living below the national poverty line. For social assistance pillar, this estimate is based on administrative data for 2018 for the SCT (this includes the subset of KGS beneficiaries), HGSM, PWAS and donor-financed bursary programs. OVC Bursary and other smaller government- and donor-financed programs are not included in the overall coverage of SA programs as data was not available. A Landscape Survey was conducted for the JEI pillar, which also collected data on total beneficiaries by programs. This data was used to estimate coverage of the JEI pillar and compare it to total employed population estimated using the 2019 Labour Force Survey (LFS). Similarly, for social insurance programs coverage is estimated as a share of employed population using LFS.

⁴¹ The budget from all the programs are used in the spending analysis and only the programs highlighted in green are evaluated in detail in terms of coverage and program performance

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46. Performance of selected individual programs is evaluated in terms of coverage, targeting/ beneficiary incidence, adequacy, and impact.

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The scope of the analysis in terms of programs is limited to those for which relevant data was available. In many countries, these parameters are calculated using the latest national household welfare survey. In Zambia, this is not possible as the latest national household welfare survey is outdated. At the same time, this LCMS 2015 survey does not include a module with the relevant SPJ programs. A microsimulation method is used in the report for SCT to estimate these parameters, but which is not possible for other programs due to unavailability of relevant data. Below is a quick summary of the microsimulation method (Box 6 and Annex 3E provide more details):

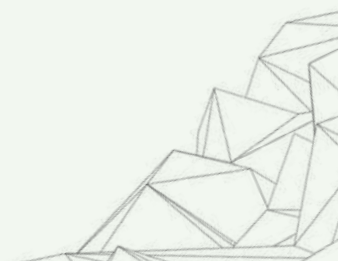
- Estimating current poverty levels in Zambia by extrapolating HH consumption from LCMS 2015 to 2019 and 2020 using IMF sectoral real GDP growth estimates.
- Estimating coverage and targeting efficiency by assigning current caseload to LCMS 2015 using categorical eligibility criteria.
- Simulating the impact of providing social cash transfers on the poverty levels using multiple scenarios.
- Monte Carlo simulations were also done to make sure that the results were not influenced by the randomization process.

47. Coverage, targeting/ beneficiary incidence and adequacy were estimated using the conceptual definition in The Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE) database. The exact methodology did vary wherever data was constrained and has been highlighted in the relevant section. Impact (quantitative and qualitative) was reported on the programs wherever available, in addition to drawing on broader literature of evidence available from other similar contexts.

48. Multiple sources of data are used to conduct the analysis throughout different chapters. Table 2.2 provides the overview of all the data sources, limitations, challenges and caveats on both data and analysis in individual chapters and annexes.

**Table 2.2:** Data sources used in the PER

DATASET	SOURCE	SAMPLING	LEVEL OF DISAGGREGATION	USED FOR
Audited annual financial statements 2014-2018 and Yellow Book from 2019-2021	Ministry of Finance	None	Program level budgets	Budget/ spending analysis
Living Conditions Measurement Survey – HH Survey conducted in 2015; seventh in its series; covered topics such as housing conditions and amenities, access to facilities and services, economic activities, community development, migration, and household events.	ZamStats	Cross-sectional; Nationally representative; Urban-rural representative	Household, Individual	Poverty estimations, SCT Simulations - Coverage, and Targeting, JEI - Populations Estimates
Social Cash Transfer Caseload – Annual administrative data from SCT MIS	MCDSS	None	National, Province, District	SCT Simulations – Coverage and Targeting
IMF Real Sectoral GDP Estimates from 2015 to 2019 and forecasts for 2020 for Zambia - IMF estimates sectoral GDP growth rates based on ILOs employment sectors for all the countries and forecasts sectoral GDPs as part of World Economic Outlook Series	IMF World Economic Outlook	National	Employment Sectors	Poverty Simulations
Zambia population estimates: Zambia 2020 census is still underway, and the last census was conducted in 2010. UN provides population estimates for all countries based on annual population growth.	UN Population prospects	None	National, Rural/ Urban	Poverty Estimations, SI - population composition
Labor Force Survey 2018/2019: The Labour Force Survey (LFS) covered a total of 520 Enumeration Areas across the ten provinces of Zambia.	ZamStats	Cross-sectional; Nationally Representative; Urban-rural representative	Household; Individual	JEI - Labor Market Outcomes; Social Insurance - Performance Analysis
World Bank SPJ PER Landscape Survey: The landscape survey was administered to each Ministry in the Economic Diversification and Job Creation Cluster.	Line Ministries	None	Program level	JEI Performance Analysis
World Bank Africa Pension Database	World Bank	None	National	Pension Performance Analysis



DATASET	SOURCE	SAMPLING	LEVEL OF DISAGGREGATION	USED FOR
KGS Caseload - Administrative data from KGS MIS since the inception of the programs	MOGE	None	Age, Grade, District	KGS - Coverage, Targeting
SWL Caseload: Administrative data	MCDSS	None	National, province, district	SWL - Performance analysis
Zambia GDP: Data are in current local currency.	World Bank – World Development Indicators	None	None	Spending analysis
Annual Inflation: Collected and estimated as a part of World Economic Outlook survey by the IMF staff usually published twice a year.	IMF World Economic Outlook	None	None	Social Assistance - Adequacy
ASPIRE is the World Bank's premier compilation of indicators to analyze the scope and performance of SP programs.	World Bank – ASPIRE database	None	Country	Social Assistance - Cross country comparisons
Zambia Labor Force - Broad Employment Sectors based on labor force surveys	World Bank – World Development Indicators	None	Gender, Age	JEI - ILO Modeled Estimates
Informal Employment: The primary World Bank collection of development indicators, compiled from officially recognized international sources	World Bank – World Development Indicators	None	None	JEI - Nonagricultural Employment
Pension Fund Asset Allocation: Global pension statistics data compiled by OECD	OECD	None	None	International comparisons
Incidence of old-age savings: The data are collected in partnership with Gallup, Inc., through nationally representative surveys of more than 150,000 adults in over 140 economies	Global Findex data 2017	None	Income quintiles, Formal/Informal	SI - Performance Analysis

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2.2.

OVERVIEW OF SECTOR'S ROLE AND CURRENT STATUS

49. Given the issues outlined in Chapter 1, a robust and well-functioning SPJ sector is critical to Zambia's overall transformative Vision 2030. The SPJ sector is comprised of three pillars—social assistance, jobs and economic inclusion (JEI), and pensions. As defined earlier, social assistance includes cash transfers (unconditional and conditional), social care programs (such as for the old or sick or young), emergency transfers in response to shocks or to refugees, and food (in-kind, including food vouchers), bursary programs or transportation cost waivers. JEI includes active labor market programs (such as trainings, start-up capital, savings group formation, wage subsidies), passive labor market programs (such as unemployment benefits or severance pay), labor market policy services (including intermediation), and economic inclusion programs (aimed at the extreme poor and vulnerable, through a bundled set of interventions to tackle the multiple constraints they face).⁴² Social insurance programs include contributory or earnings-related pensions and savings programs, health insurance, maternity/paternity benefits, and occupational injury benefits. These programs can contribute significantly to Vision 2030 by improving earnings, working conditions, risk management, human capital and more (Figure 2.1). As highlighted earlier, the social insurance deep-dive analysis includes an analysis of pension schemes only.

50. There is growing evidence that SPJ contributes to economic diversification and sustainable growth (Figure 2.1). Amongst the social assistance programs, Kenya's Cash Transfer for Orphans and Vulnerable Children has altered household-level decision-making and resulted in riskier and higher return investments, which is linked to relieving some of the pressure faced from scarcity and unpredictability of income (Asfaw et al., 2014). Muralidharan et al. (2018) assessed recent improvements in implementation of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) in India. They concluded that market wages rose 6.1 percent while the reported reservation wages by 5.8 percent. Ibararán and Shady (2009) determine the impacts of demand driven training schemes financed by the Inter-American Development Bank (IDB) in Latin America. They find that aside from higher employment rates, conditional on employment, there were positive impacts in terms of the quality of jobs that trainees get. Social insurance programs, such as workers' compensation schemes, have helped improve working conditions and employment security of workers by improving bargaining power and reducing the likelihood of people resorting to damaging coping strategies and falling into destitution (FAO 2015).

42. The State of Economic Inclusion Report 2021: The Potential to Scale



Figure 2.1: Social Protection and Jobs (SPJ) plays a critical role in achieving Zambia's Vision 2030

	ECONOMIC DIVERSIFICATION AND SUSTAINABLE GROWTH	POVERTY AND INEQUALITY	HUMAN CAPITAL	GOVERNANCE
SOCIAL ASSISTANCE	<ul style="list-style-type: none"> ● Raises reservation wages ● Ensures regular and predictable income to improve risk appetite and potentially raise returns⁴³ 	<ul style="list-style-type: none"> ● Provides households with income support to fight poverty ● Leads to increase in precautionary savings and improved livelihood strategies, if income support is regular and predictable ● Improves resilience to shocks⁴⁴ 	<ul style="list-style-type: none"> ● Leads to improved human capital outcomes (lower infant mortality, lower levels of stunting, higher levels of educational attainment) when combined with good quality service provision ● Improves resilience to shocks (i.e., reduction in occurrence of negative coping mechanisms)⁴⁵ 	<ul style="list-style-type: none"> ● Improves social contract ● Enhances citizen engagement through grievance redress mechanism ● Increases empowerment of the poorest and vulnerable, especially women and girls ● Improves financial management through e-payments and decentralized delivery of cash
JOBS AND ECONOMIC INCLUSION	<ul style="list-style-type: none"> ● Improves formalization and transformation towards good jobs ● Facilitates better matching of (vulnerable) individuals to suitable jobs ● Encourages labor demand ● Enhances sectoral value creation through improved value chain linkages⁴⁷ 	<ul style="list-style-type: none"> ● Improves productivity and income of the informal sector ● Improves opportunities for productive engagement of the extreme poor and vulnerable⁴⁸ 	<ul style="list-style-type: none"> ● Improves skills of workers ● Improves noncognitive abilities⁴⁹ 	<ul style="list-style-type: none"> ● Improves (potentially) improvement in pro-poor targeting and colocation of programs more broadly through improved delivery systems (e.g., beneficiary/ social registry)⁴⁶
SOCIAL INSURANCE	<ul style="list-style-type: none"> ● - Improves working conditions and especially in riskier work environments⁵⁰ 	<ul style="list-style-type: none"> ● Helps individuals manage risk, take advantage of productive opportunities, and leads to growth which is more inclusive ● Improves well-being by providing peace of mind⁵¹ 	<ul style="list-style-type: none"> ● Improves access to health especially during distress ● Encourages greater investments in child human capital through reduced risk mitigation needs⁵² 	

Source: Author's illustration, based on literature review (see footnotes).

43. Asfaw et al. 2014; Muralidharan et al 2018;

44. Muralidharan et al 2018; Beegle et al. 2018; Bowen et al. 2020

45. Alderman et al 2012; Akresh et al 2013; Ralston et al. 2017; Premand and Stoeffler 2020

46. World bank 2014; Evans et al. 2016; Muralidharan et al. 2016;

47. Chakravarty et al. 2016; Ibarraran and Shady 2009

48. Andrews et al. 2021; Honorati 2015

49. Ibarrarán et al. 2014; Das 2021; Arriagada et al. 2018

50. FAO 2015.

51. Fang and Sakellariou 2016; Tamborini and Cupito 2012

52. Mu and Du 2015

ES	<p>51. The three pillars of SPJ play a critical role in reducing poverty and inequality (Figure 2.1). Social assistance programs can help improve the ability of households to manage risk and build resilience through, for example, increased savings. The value of savings for program beneficiaries rose significantly, by 9 percent in the Cash for Work Program of the Youth Employment Support Project (CfW) in Sierra Leone and 92 percent in Kenya's GiveDirectly (Haushofer and Shapiro 2016; Rosas and Sabarwal 2016). Honorati (2015) explores the impact of jobs and economic inclusion programs. Her analysis of the training and internship program in Kenya reveals that the program was successfully able to place vulnerable youths in paid jobs, resulting in increased employment and earnings for the program participants. Fang and Sakellariou (2016) use an unconditional quantile regression to show a positive relationship between pensions and subjective wellbeing (SWB) for the first time in happiness literature on Chinese migrants, signaling interesting future research directions on the policy effects of social insurance/pension schemes on improving the SWB of rural populace.</p>	<p>53. SPJ improves governance (Figure 2.1). First, Muralidharan et al. (2016) evaluate the impact of biometrically authenticated payments infrastructure ("Smartcards") on beneficiaries of employment (NREGS) and Social Security Pensions (SSP) programs in the Indian state of Andhra Pradesh. They find that the new system delivered a quicker, more predictable, and less corrupt NREGS payments process without harming program access. The investment was cost-effective, as time savings to NREGS beneficiaries alone were equal to the cost of the intervention, and there was also a prominent reduction in the "leakage" of funds between the government and beneficiaries in both NREGS and SSP programs. Second, Benazir Income Support Program for the Poorest (BISP), a social assistance program in Pakistan, was launched to compensate and protect the most vulnerable groups of the population amidst spiraling prices and high inflation rates. The program was able to achieve a broader coverage and strong pro-poor targeting via use of a National Socio-Economic Registry (NSER), which was created and maintained at the federal level (Loewe and Auktor 2021). Third, program features such as grievance redress and community and beneficiary participation may contribute to the social contract (Beegle et al., 2018). For example, Osofian (2011), for instance, finds that the Hunger Safety Net Program (HSNP) in northern Kenya, which includes a grievance mechanism and a rights education component, has helped communities hold local government to account. Similarly, in Sierra Leone, confidence in the social safety net program has greatly enhanced since the independent Anticorruption Commission began handling grievance redress and audits and using technology to shorten the response time (Beegle et al., 2018).</p>
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V	<p>52. SPJ is pertinent for acquiring favorable human capital outcomes (Figure 2.1). School Feeding Program in Northern Uganda (SFPNU) led to a 9 percent increase in likelihood of children aged 6-13 years, (primary and lower secondary) who were out-of-school, to get enrolled in school. SFPNU also led to improved attendance outcomes and helped reduce roughly one-fifth of a repeated year of schooling on average for boys (Alderman et al., 2012). Amongst the JEI programs, Ibarrarán et al. (2014) present an impact evaluation of a revamped version of the Dominican Republic's youth training program Juventud y Empleo. In their analysis, they find that the program had a positive impact on noncognitive skills as measured by three different scales namely, Social and Personal Competencies Scale (CPS), Rosenberg and Grit scales. Scores improve between 0.08 and 0.16 standard deviations with the program. Regarding social insurance programs, Mu and Du (2015) assess the impact of an expansion of the public pension program in urban China on children's education expenditures. They conclude that with the expansion of pension coverage, more parents are able to spend more on education; reflecting that social security reform affects intergenerational transfers in the form of education investment.</p>	<p>54. Zambia's SPJ sector has a robust policy and programmatic environment. The main policy documents guiding the social protection sector are the National Social Protection Policy (NSPP, 2015-2019), the Integrated Framework of Basic Social Protection Programs (IFBSPP, 2018) and the Seventh National Development Plan (7NDP) 2017-21. The NSPP provides a strong rationale for a scaled up and well financed social protection sector overall. The IFBSPP 2018 moves the sector away from framing the poor as viable/nonviable poor to: (a) laying a floor (basic social assistance) together with complementary services (livelihoods</p>

53. Also known as MNREGS, Mahatma Gandhi National Rural Employment Guarantee Scheme

and empowerment) to achieve greater impact and (b) a more comprehensive approach (rather than programming in silos) to reduce extreme poverty and promote human capital development. The IFBSPP also aims to bring greater coherence and inter-/intra-ministerial institutional and operational coordination. The Strategy Paper on Industrialization and Jobs Creation 2013 provides a clear direction and costing for job creation through the development of priority sectors, with a 'light touch' and zero-cost focus on skills development. Under the Reducing Poverty and Vulnerability pillar, the 7NDP outlines the government's aim to increase the coverage and targeting of SPJ programs to enhance the welfare and livelihoods of the poor and vulnerable.

55. There are, however, gaps in the current policy environment and program architecture, which have a significant impact on overall efficiency of SPJ spending. Presently, a strict legal interpretation of the 2016 Constitution prevents a series of reforms that would allow managing expenditures in both the Public Sector Pension Fund (PSPF) and the Local Authorities Superannuation Fund (LASF). This impedes any change to future accrual rates and the generous commutation rules that generate most of the financing gaps each year for both these schemes. Further, a clear formulation of JEI beyond industrial development led job creation is missing and needs to be addressed moving forward.

56. Zambia's SPJ programs aim to help the poor and vulnerable cope with crises and shocks, find jobs and invest in the health and education of their children, and protect the aging population. Zambia's current government-led regular social assistance system comprises five main programs, and several other relatively small programs and social care services. The main social assistance programs include: Social Cash Transfer Scheme (SCT), Public Welfare Assistance Scheme (PWAS), the Home-Grown School Meals Program (HGSM), Bursary for Orphans and Vulnerable Children (OVCs), and the Keeping Girls in School (KGS) initiative. These programs are designed to promote human capital investments among incapacitated households and help them have more secure access to food and basic needs. The mandatory pension system in Zambia is constituted by three institutions: the National Pension Scheme Authority (NAPSA), PSPF and

LASF. All of them are contributory defined benefit systems with separate sets of rules that cover different parts of the population. In addition, private sector employers can offer occupational pension schemes; these 'second-tier' benefits are managed by private pension providers which are regulated and supervised by the Pensions and Insurance Authority (PIA). JEI programs target the vulnerable and extreme poor and are dominated by the provision of agricultural inputs to improve productivity and incomes. Key programs include the Food Security Pack (FSP), Women Empowerment Program (WEP), Supporting Women's Livelihood (SWL), Zambia Decent Work Country Program (DWCP), and various Youth Empowerment programs. The Farm Input Subsidy Program (FISP) is excluded from the analysis in the PER as, if included, its considerable share in total budget could potentially skew the overall analysis.

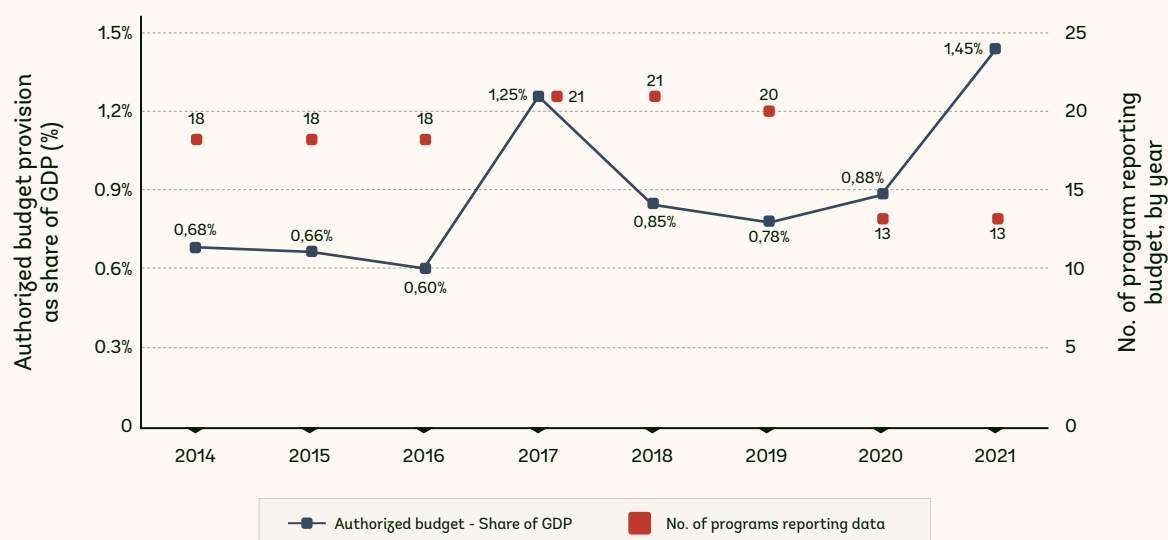
57. Budgetary allocations for SPJ fluctuated between 2014 and 2021, averaging about 0.89 percent of GDP during this period. The authorized budget provision for SPJ programs increased from K1,140 million in 2014 to K5,654 million in 2021. During this time period, the share of SPJ allocations in total GDP increased considerably from 0.68 percent of GDP to 1.45 percent (Figure 2.2). In particular, the 2017 budget increased allocations to SPJ by 84 percent, amounting to 1.25 percent of GDP. This increase in budget allocations can be credited to the introduction of new SPJ programs in 2017 such as GEWEL and scale-up of SCT. However, this scale-up occurred at a time of eroding fiscal space for nondiscretionary spending, leading to a decline in the budgetary allocation to SPJ in subsequent years. The budgetary allocations started to rise once again following the COVID-19 crisis in 2020. The sharp ascent in 2021 can be attributed to a 994 percent and a 124 percent increase in authorized budget allocations for the FSP and SCT programs, respectively.

58. However, budget allocation figures misrepresent the scale of the SPJ system - actual spending is well below allocation. During 2014-18, spending averaged only 0.54 percent of GDP. The execution rate, defined as the share of actual spending in the total authorized budget provision, is very low for SPJ. For the 2014-2018 period, actual spending averaged 65 percent of the authorized budget (Figure 2.3)⁵⁴ - even this is likely an upper bound

54. Consistent data on actual expenditure for all programs (other than SCT) is not yet available for 2019.



Figure 2.2: Increasing budget allocation for SPJ



Note:

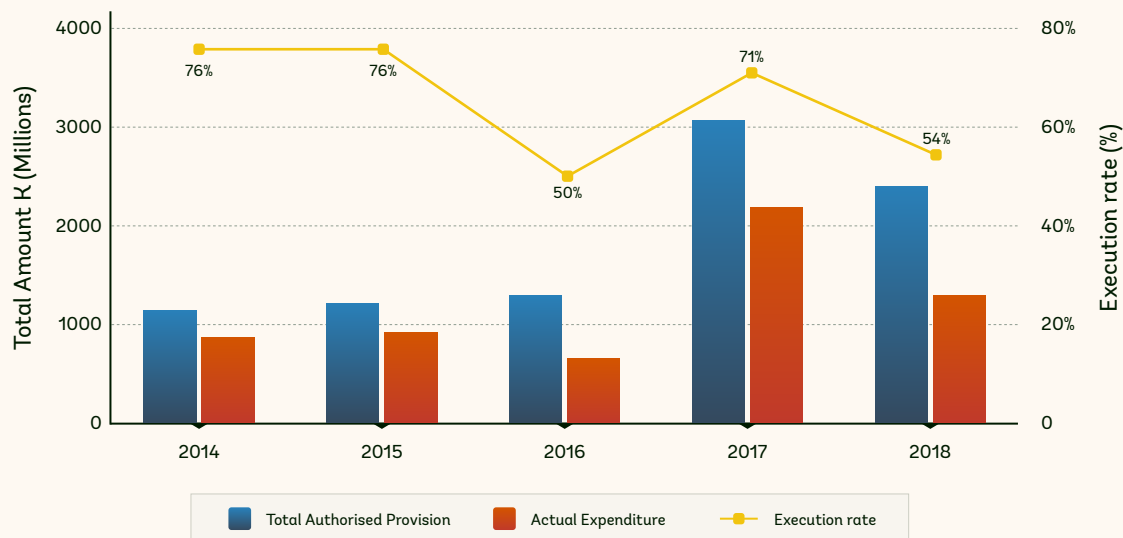
Budget allocations refer to authorized budget (approved and supplementary) provision for 2014-2018; for 2019-2021, it is assumed the authorized budget equals the approved budget.



Source: MOF data, with definitions and scope as per the NSPP.



Figure 2.3: Low execution rates imply much lower actual spending (2014-18)



Note:

Execution rate is defined as the share of actual spending in the total authorized budget (approved and supplementary) provision. Spending data is available only for 2014-18.



Source: MOF data.

estimate of the execution rate, as the additional challenge due to low absorptive capacity is not fully taken into account. A more concerning observation is the significant dips observed in 2016 and 2018. The steep drop in 2016 was a result of reduced execution rates of the SCT program and the Public Service Pension Fund (PSPF) program by 42 percent and 38 percent respectively. In 2018, the execution rates for FSP and PSPF fell by 62 percent and 41 percent, respectively. The Social Health Insurance program, Orphans & Vulnerable Children (Bursary) program and Public Welfare Assistance Scheme also witnessed huge drops in execution rates, with execution rates almost touching zero percent. With continued shrinking of fiscal space, the situation may well become worse.

59. Across the three pillars of SPJ, social assistance programs have the lowest execution rates during the 2014-2018 time period. In 2016, social assistance saw a steep drop in its execution rate when it fell to an astonishing 38 percent. This fall was largely driven by the low execution rate recorded for the SCT program. Aside from the blip in 2016, social assistance programs' execution rates have been fairly consistent. JEI programs witnessed a big drop in execution rates in 2015; Youth Development Fund and FSP programs saw a decrease of 82 percent and 37 percent in their respective execution rates. Since 2015, JEI programs have recorded an upward trajectory in execution rates. Pension programs have generally

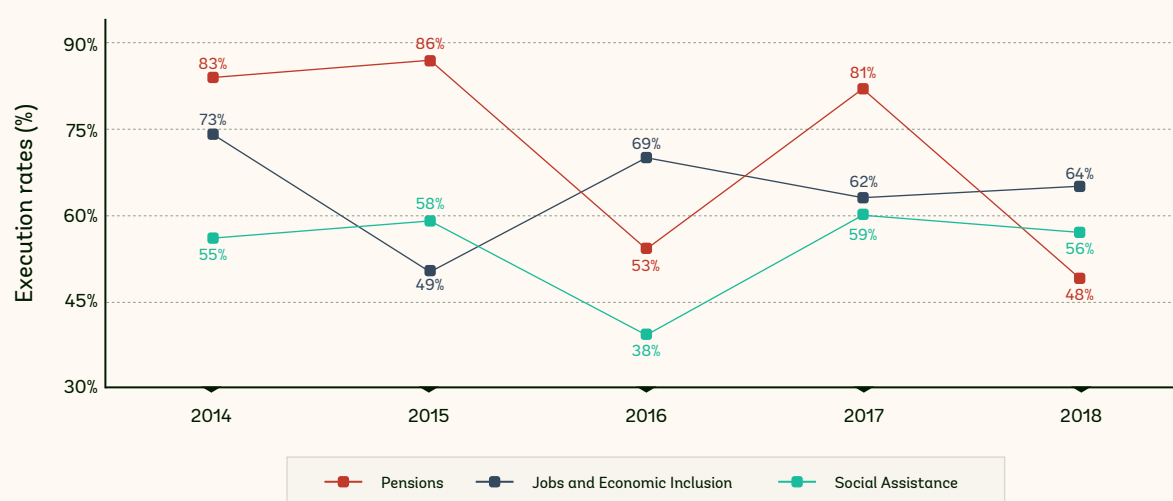
performed well on execution rates. However, they saw a huge reduction in 2016 and 2018 as execution rates fell to 53 percent and 48 percent respectively, owing to the PSPF program.

60. This low execution rate is a consequence of the broader fiscal challenges facing Zambia. An inadequate revenue base and weak fiscal management, combined with numerous external and domestic shocks, has resulted in high fiscal deficits and excessive reliance on borrowing. Such nondiscretionary expenses have not only shrunk space for discretionary spending, but they have also contributed to SPJ programs remaining largely unfunded. As a result of this low execution rate, SPJ financing is both inadequate and unpredictable. The substantial financing gap for most SPJ programs constrains their meeting their objectives. Consequently, the government relies on donor financing to at least partly meet its SPJ commitments.

61. Social Insurance comprises the highest share of total SPJ expenditure (Figure 2.5). However, over the course of 2014-2018 time period, its share reduced by 24 percent from 68 percent in 2014 to 44 percent in 2018. Social assistance's share rose from 20 percent in 2014 to 37 percent in 2018, almost equaling expenditure on pensions. JEI's share was 12 percent in 2014 and increased to 18 percent in 2018. Protection's share was minimal to begin with and it reduced to almost nothing by 2018.



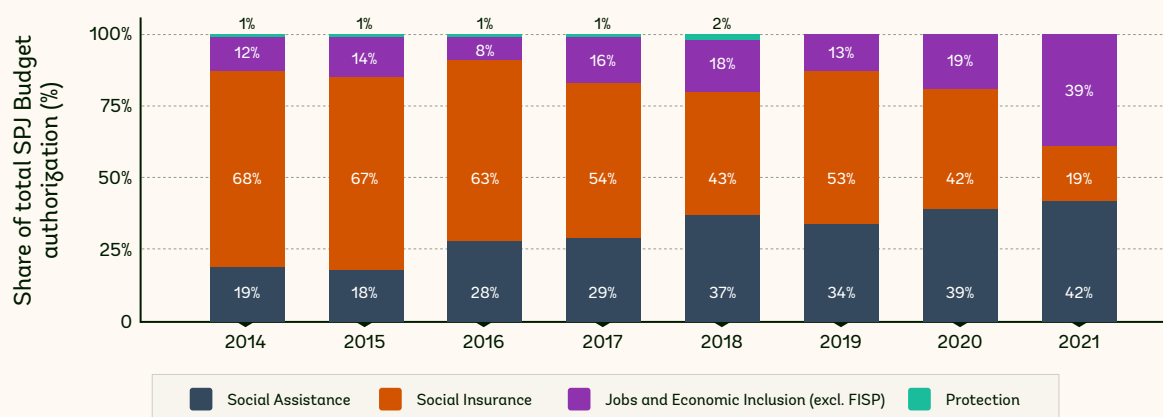
Figure 2.4: Execution rates across SPJ pillars



Source: MOF data.



Figure 2.5: Decomposition of SPJ Budget allocations by pillar, 2014-2021



Note: Annual distribution uses budgetary provision data which is the sum of budget allocation and supplementary estimates or savings declared.



Source: MOF data.

62. Despite government foresight in establishing a broad-reaching and comprehensive social assistance policy framework with promising commitments, the government's social assistance financing is inadequate, unpredictable and donor financing. Average execution of budget allocations for social assistance has been around 55 percent between 2014 and 2018; social assistance budget execution is even less than other competing programs. As a result, development partners have stepped in to finance the significant shortfalls in program payments from government resources. The budget execution figures for social assistance suggest that the policy foundations are not backed up with strong commitment to allocate government resources to SPJ. Given this lack of real budget execution, Zambia, despite seemingly having one of the highest coverages of social assistance programs compared to other countries with similar levels of poverty in Sub-Saharan Africa, underperforms most of its peers. Even if it were to be fully funded, Zambia's social assistance programs would fall short of meeting overall need. In addition to this coverage shortfall, the value of SCT benefits has eroded over time and falls substantially short of government's target. The one-time increase in the nominal value of benefit, over the last five years, is not enough to address the chronic and transient poverty challenges due to the rapid increase in inflation over the years.

63. Despite existing implementation challenges pertaining to coverage and adequacy, social assistance programs show immense promise to reduce poverty incidence in Zambia (see Box 1). In recent years, the Government of Zambia has made considerable progress in expanding the coverage of social assistance to help meet the basic needs of households steeped in poverty. For instance, the flagship Harmonized Social Cash Transfer (SCT) program, that currently has a nationwide caseload of 616,000 beneficiaries and covers about 18 percent of the population, started as a small pilot in Kalomo district in the early 2000s. Subsequently, the Government of Zambia has also sought to protect human capital through the Home-Grown School Meals (HGSM) and Keeping Girls in School (KGS) initiatives. Despite gradual increase in coverage over time, significant gaps remain due to financing shortfalls (see Chapter 2). The social assistance programs appear to be reasonably well-targeted across provinces and districts, with scope for improvement in some districts. The rationing of funds across districts is relatively pro-poor; districts with higher coverage and higher poverty incidence were prioritized and were more likely to receive funds to pay beneficiaries relative to others. For the SCT program, the distribution of the beneficiary households is also progressive. The adequacy of transfer is low relative to national per capita poverty line, and the value of benefits has eroded over the years due to high and fluctuating

inflation. The current benefit levels also fall short of the government's target. Overall, these social assistance programs show encouraging results on protection, household welfare and production outcomes. Provided they are fully funded, and all operational challenges are addressed, these programs have the potential to significantly reduce poverty and improve human capital outcomes.

64. The Government of Zambia has developed a strong policy foundation centered around job creation and economic diversification, including increased budget allocations; yet there exists unrealized potential owing to inadequate and unpredictable financing issues. Budgetary allocations for JEI increased between 2014 and 2021, averaging about 0.18 percent of GDP during this period. The significant budgetary allocations in 2021 can be attributed to the COVID-19 crisis in 2020. The livelihood and empowerment programs increasingly took up a significant share of the jobs and economic inclusion budget. However, despite such promising financial commitments, budgetary allocations have not translated into actual expenditures. Over the period 2014-2018, the execution rate averaged 64 percent, bottoming out to 49 percent in 2015 due to low expenditures particularly in Youth Development Fund and FSP programs. Currently, some budget lines are not being funded, or they are too small. No single program had a consistent expenditure over the 2014-2018 time period which points to inefficiencies in spending. Part of the problem was that there were too many JEI programs being implemented in every province, and they were fragmented across ministries. Few programs were aware of what other ministries were doing in this field, suggesting a lack of coordination among programs to avoid duplication of efforts. This raises further important questions as to whether needs assessments in these provinces were carried out before programs were launched, and whether there was and is a demand for these programs throughout the country.

65. Overall, coverage of JEI programs is modest, and most programs so far haven't scaled up. With a little over a million beneficiaries, JEI programs cover six percent of the total population in Zambia. These programs are implemented across rural, urban and peri-urban areas; some JEI programs exclusively target women, including Women Empowerment Programme, GEWEL, and Village Banking. Most JEI programs focus on providing

job opportunities to the unemployed and a few programs target the underemployed and inactive labor force. Since the majority of the programs are targeted to the poor, the coverage is only 11 percent of people below national poverty line. On average, the SWL program targets districts with higher poverty rates; however, the targeting can be improved overall. In terms of adequacy, lump sum cash grants provided as part of SWL package are refreshingly high as compared to similar livelihood programs. The benefit amount of a productive cash grant is more than three times the average household consumption of the bottom quintile. JEI programs tend to be relatively small and so far, only two programs have scaled i.e. FSP which covers 500,000 beneficiaries and SWL which benefits 375,000 people. Both programs are currently active across all provinces. In absence of these two programs, all the other programs combined cover a little over one percent of the Zambian population. JEI programs have massive potential to address the needs of the poor and vulnerable groups, provided they are fully funded, and all implementation challenges are addressed (see Box 2 for additional discussion on JEI programs' impacts).

66. Pensions programs, on the other hand, have been designed with a focus on formal sector employees, yet also face large financing issues. As mentioned earlier, PSPF, LASF and NAPSA constitute the mandatory pension system in Zambia. While closed to new nonuniformed members, PSPF remains open to defense and security forces. LASF, on the other hand, is closed to all new members which means that it will disappear over time. Therefore, going forward, NAPSA will be the main source of old-age income security for the civilian population (both formal sector and civil service) and PSPF will essentially be transformed into a pension scheme uniquely for defense and security forces. All three institutions cover formal workers. Informal sector workers, who represent 70 percent of total employment in Zambia, are largely excluded from pension programs and are, as a result, left having to rely on labor income, personal savings or family support at older ages. At the same time, PSPF and LASF feature generous parameters and represent a significant cost to the government, creating both equity and affordability concerns. All new civil service entrants are members of NAPSA and will therefore have lower pensions than current active

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LASF and PSPF contributors and pensioners. NAPSA, on the other hand, should currently be entirely fiscally self-sustaining having been established only in 2000 without inheriting any liabilities. NAPSA's benefit formula includes far less generous parameters than those of PSPF and LASF which would likely allow it to more easily maintain a fiscal balance even as the system matures. However, NAPSA also took over the Zambia National Provident Fund (ZNPF) with all its assets and liabilities. The liabilities it assumed from ZNPF generate short-term financial risks.

67. The pensions pillar suffers from coverage and adequacy issues. By the end of 2019, NAPSA, PSPF and LASF's registered contributing members represented 31.9 percent of the total employed population estimated for 2019. This implies that over two-thirds of the employed population—mostly corresponding to informal workers—do not contribute to any pension scheme. In 2019, NAPSA, LASF and PSPF's pensioners' figures represented 13.3 percent of the population which is 60 years or older. Because of the lack of coverage in the contributory system, a significant proportion of the older persons population, especially the poor and nonresilient older persons population in urban areas, does not receive a pension benefit. NAPSA's coverage statistics also reveal a significant gender gap in contributory coverage; the highest coverage rates are among men in prime working age groups. In terms of adequacy, NAPSA benefits are adequate. However, the minimum threshold of 15 years of service to qualify for pensions may prove demanding for a sizable proportion of population as they do not have stable employment in the formal sector. NAPSA pensions are also adjusted annually based on changes in national average earnings. When earnings increase more than the general level of prices, indexation using average earnings also becomes expensive and threatens the financial sustainability of pension schemes. Both of Zambia's public sector systems, LASF and PSPF, permit commutation of pension benefits which not only goes against regional trends and international best practice but makes the practice extremely expensive and compromises retirement income adequacy later in life. Given the high commutation options, adequacy of pensions will continue to be low in the future.





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BOX 1: Program impacts of social assistance projects

Social assistance programs have had transformative impact on beneficiaries.

The SCT program has had large impacts on protection (the primary objective) and productive outcomes, disregarding any concerns of dependency and suggesting that the program may lead to sustained improvements in living standards. Multiple evaluations over the period 2003–2014 found significant impact on household consumption, especially food consumption for poorer households (Tembo, Freeland, et al. 2014, Tembo, Chimai, et al. 2014); school enrollment, investments in productive assets and income diversification toward share cropping (Seidenfeld and Handa 2011). Impact evaluations of the Child Grant Program (CGP) and Multiple Category Program (MCP) reveal favorable impact on food security, asset ownership, savings (and reduced indebtedness), incomes and revenues, shifts in employment patterns and income sources, perceptions of subjective poverty, and children's material needs (Hjelm et al. 2017, Handa et al. 2018, Natali et al. 2016, Handa et al. 2016, Daidone et al. 2014, AIR 2016). This report simulates the effect on poverty of a fully funded SCT program, i.e., covering 614,479 households. Simulations estimate that if all those enrolled in the SCT were paid benefits, this would bring down poverty by 3.7 percentage points. Enhanced SCTs could potentially reduce poverty incidence by up to 6 percentage points, below the 2015 level, despite the recent surge due to the pandemic.

Global evidence on bursary and stipend programs, and cash transfers more generally, suggests consistent, significant, and often substantial positive impacts on school enrollment, attendance, completion, and retention (Duflo, Dupas, and Kremer (2019), Kremer, Miguel, and Thornton (2009), Ralston, Andrews, and Hsiao (2017)). This in turn links to an improved stream of future earnings, and further human capital accumulation for the

next generation. Globally, there is evidence of positive returns to additional years of schooling. For Zambia, the most recent estimates show that the returns to an additional year of schooling is 15 percent—higher for women at 16.7 percent compared to men at 13 percent (Mphuka and Simumba 2012). These returns are substantial—for example, the Keeping Girls in School (KGS) program costs about K 2,162 for a year of schooling for one beneficiary. At this assessed rate of return, this translates to between 4–4.5 years to recover such an investment (through increased earnings to the beneficiary), assuming a beneficiary attends only one year of school. An early assessment of KGS revealed that beneficiaries consider the support valuable in continuing or returning to school. For most beneficiaries, the fee waiver removed financial barriers to school enrollment and attendance. Recipients also reported that being able to go back to school helped them feel a renewed sense of hope for the future (Friedson-Ridenour and Milapo 2020).

Recent evidence on Home-Grown School Meals (HGSM) highlights immense potential to improve human capital outcomes as the provision of school meals has a positive impact on schooling, nutrition, and food security. For example, provision of school meals improved attendance rates by 5.4 percent among primary school students and 14.3 percent among secondary school students. Provision of school meals increases children's dietary diversity score by 60 percent. Possibly through spillover effects to other household members, school meals also improve the diet diversity scores for women and food security (Prifti and Grinspun 2019). Simulations of this impact at scale, assuming universal school feeding in rural areas, suggests school meals would increase primary school-aged children's school attendance by 4.7 percentage points relative to no school meals (FAO 2020).



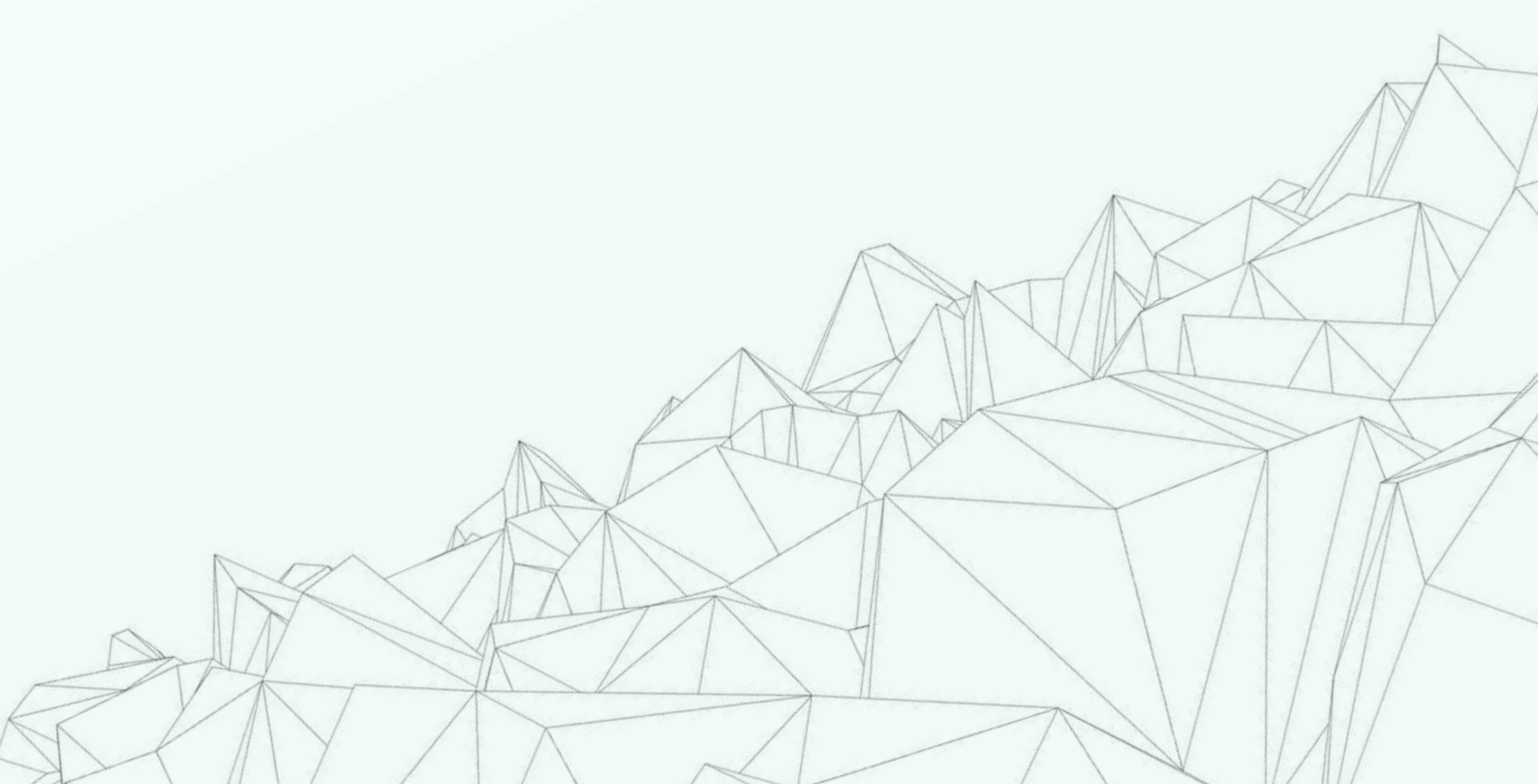
BOX 2: Program impacts of JEI interventions

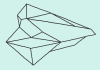
Paul et al. (2021), a review of 118 projects globally between 2009 and 2020, shows that economic inclusion programs (bundled interventions aimed at easing multiple constraints faced by extreme poor households) have impact on a variety of outcomes including income, assets, and savings. Economic inclusion programs help participants invest in productive assets and to save, earn, and consume more than they could have without these programs. Most programs increase household resilience to shocks by diversifying livelihoods and sources of income, facilitating savings and access to affordable credit, and building social networks. A limited evidence also points out that many programs empower women by enhancing economic opportunities and social status and increase child well-being in participating households by increasing investments in human capital. Additionally, A bundle of coordinated multidimensional interventions demonstrates greater impact relative to stand-alone interventions.

The Supporting Women's Livelihood (SWL) program is a flagship women's economic inclusion and empowerment program with strong potential to scale. Launched in 2015 with financing from the World Bank, SWL program currently reach out to 375,000

unique females. While most JEI programs operate in urban, peri-urban and rural areas, SWL is the only program to focus exclusively on rural areas. The adequacy of the lumpsum cash grant provided as part of SWL package is also relatively high. The benefit amount of productive cash grant is more three times the average household consumption of the bottom quintile and the value of the grant will take time to erode as the inflation rises. Additionally, multiple installments of the grant amount help reduce the income effect of on household consumption of receiving a large sum of money all at once.

A Food and Agriculture Organization (FAO)/Ministry of Community Development and Social Services (MCDSS) study found that Food Security Pack (FSP) had clear positive impacts at the household level (Wolkenhauer 2018). The project achieved its goal of increasing yields and agricultural incomes. Recipients reported significant improvements in food security and nutrition in cases where inputs were received on time. Beneficiaries from female-headed households participating in another 2017 qualitative study noted that not only did yields increase, there was a simultaneous improvement in food quality (Chilala 2017).





BOX 3: Farm Input Subsidy

FISP is Zambia's leading agricultural sector Poverty Reduction Program. Since its introduction, the overall goal of the program has been to cultivate private sector participation in agricultural input markets; increasing food security and incomes were added as secondary goals by 2009/10. FISP has six specific objectives: (i) expanding markets for and increasing the contribution of the private sector in the distribution of agricultural inputs; (ii) ensuring timely, effective and satisfactory supply of agricultural inputs to targeted small-scale farmers; (iii) improving small-scale farmers' access to agricultural inputs; (iv) making input supply and distribution process more competitive and transparent; (v) enabling farmer organizing, knowledge dissemination, and the creation of rural institutions; (vi) acting as a risk-sharing instrument between small-scale farmers and the government (MACO 2002:2).

Despite seeing high funding for over a decade, FISP's impact on smallholder maize yields has mostly been below potential. While FISP has raised the use of inorganic fertilizer and hybrid maize seed among Zambian smallholders, the increase has been marginal i.e. by less than one kilogram per kilogram of the FISP input distributed. The timid increase observed is due to the crowding out of commercial demand and diversion of some of the inputs intended for

the program (Mason and Jayne 2013; Mason and Ricker-Gilbert 2013). Participation in the program is estimated to raise maize production but by a factor noticeably smaller than the one recorded in other countries such as Kenya. Unfortunately, late delivery of the inputs, low soil quality, and poor management practices have reduced its impacts on maize yields and eroded the profitability of inorganic fertilizer and hybrid maize seed use at market prices (Mason et al. 2013; Burke et al. 2016; Namonje et al. 2015; Levine 2015). Previously, the program has also disproportionately benefited larger farmers, even those not eligible by land size (Mason et al. 2015).

FISP eligibility requirements create barriers to entry for poor households (Burke, Jayne, and Sitko 2012). The requirement that beneficiary households have the capacity to cultivate at least 0.5 ha of maize immediately excludes 17 percent of smallholder households. Additionally, the prerequisite that beneficiary households be members of a cooperative or other farmer group hinders participation as it equates to substantial cash expenditures for membership fees and cooperative shares. Farmers may also be required to pay a percentage of the input costs, discouraging poor households from participating in FISP (Burke, Jayne, and Sitko 2012).

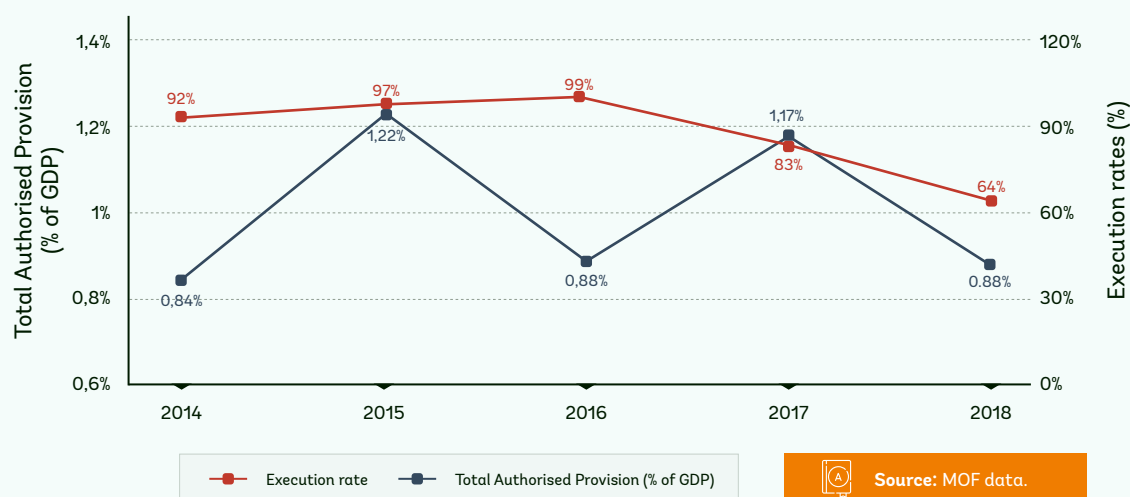


Considering the government's macro and financial constraints, increased budgetary allocations for FISP are a concern going forward. Changes in the mix between the traditional and E-voucher systems do not justify the huge increases in FISP budget allocations over FY20-21. While the dollar value of the program has significantly increased, especially since the start of FY19, the number of targeted beneficiaries and amount of inputs provided to each beneficiary remains unchanged, raising adequacy concerns. Additionally, authorized budget provisions for JEI including FISP

are twice the amount of authorized budget provisions without FISP. Despite seeing such high budget allocations over the 2014-2018 period at an average growth rate of 20 percent, FISP's corresponding execution rates dropped consistently (Figure 2.6). Execution rates for 2017 and 2018 were 83 percent and 64 percent, respectively. However, unlike the other SPJ programs, the drop in execution rates has been less significant. Therefore, FISP is still consuming a huge share of budget allocations despite the reported inefficiencies.



Figure 2.6: Total Authorized Provision and Execution Rates for FISP



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KEY FUTURE STRATEGIC DIRECTIONS – THE SIMPLE STRATEGY

68. Overall, despite substantive gains, comprehensive reforms are essential to realize the transformative impacts of the sector in contributing to Zambia's broader development goals. Here, the report presents the four-pronged SIMPLE strategy, a set of recurrent high-level actions to be prioritized by the government. Roughly they correspond to short-term actions of sustainable financing, medium-term actions of enhancing efficiency and impact and improving coherence, and long-term actions of increasing coverage and plugging coverage gaps (Figure 2.7). The envisaged time period for short-term, medium-term and long-term actions is 1-2 years, 3-4 years, and 4 years and thereafter respectively. In reality, various parts of government can start working on these simultaneously. These are recurrent or cyclical in nature because: (a) the scale of need in the country is immense and cannot be fulfilled without scaling up programs which would inherently require more financing; (b) the process of improving coherence and enhancing efficiency and impact will need to evolve with time to suit changing conditions and these actions by themselves require time. Each is discussed in more detail below.

69. As an immediate priority, the government needs to fully finance its SPJ commitments. As discussed earlier, across all pillars only about two-thirds of the budget commitments were spent between 2014-18. Despite some of the operational issues in the sector, fully financing the existing commitments will help realize the potential of the sector. For example, a fully financed SCT program alone, at the current caseload, can lead to a

6-percentage point drop in national poverty after incorporating a COVID-19 related increase. In fact, not only are there benefits in terms of outcomes but also in terms of the compounding of fiscal burden. For example, the lack of budget execution has meant that PSPF is unable to meet retirees' lump sum commutation, which in turn implies that they continue to be on the government payroll, creating additional fiscal costs.

70. Fiscal prioritization of SPJ is as much key to the government meeting its fiscal commitment to the sector as is a vibrant economy that will improve execution of budgets across the board.

As discussed earlier, a worsening debt situation combined with slowing growth has meant that the government has had to reduce its spending on discretionary items, including SPJ. Nevertheless, it is worth noting that the budget execution rate of FISP is about 87.5 percent between 2014-18 or about 25 percentage points higher than that of SPJ. Despite the fact that it has had modest impacts, Jayne et al. (2018) find that participation in FISP is estimated to raise maize production by 188 kg of maize per 100 kg of FISP fertilizer, considerably smaller than similar applications in other countries, such as Kenya, where the increase is double as much. Mason et al. (2015) estimate that the benefit-cost ratio for the program is between 0.37 and 0.76. Moreover, despite being termed a poverty reduction program since 2009-10,⁵⁵ in 2010-11, the program disproportionately benefited larger farmers, even those not eligible by land size—14 percent of FISP fertilizer was distributed to farmers cultivating more than 5 hectares of land. de la Fuente et al. (2015), find that the fertilizer is almost

55. Originally, FISP had six specific objectives: (i) expanding markets for and increasing the contribution of the private sector in the distribution of agricultural inputs; (ii) ensuring timely, effective and satisfactory supply of agricultural inputs to targeted small-scale farmers; (iii) improving small-scale farmers' access to agricultural inputs; (iv) making input supply and distribution process more competitive and transparent; (v) enabling farmer organizing, knowledge dissemination, and the creation of rural institutions; (vi) acting as a risk-sharing instrument between small-scale farmers and the government (MACO 2002:2). Increasing food security and incomes were added as secondary goals by 2009-10.

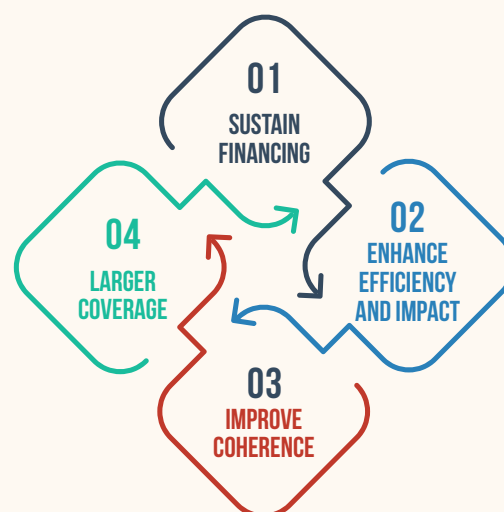
equally used by poor households across quintiles, and the nonpoor are only slightly less likely to do so. At the same time, Zambia's energy subsidies at about 10 percent of GDP are among the highest in the region (the Sub-Saharan Africa average is 4 percent of GDP). de la Fuente et al. (2015) find that they are highly regressive subsidies with the top two quintiles disproportionately benefiting from the subsidy (about 70 percent of households in the top quintiles benefited versus less than 5 percent in the bottom two quintiles). Given this, in the short-term, the government should reprioritize away from subsidies and toward SPJ, especially programs such as SCT that have demonstrated impacts both globally and in Zambia.

71. The current crisis may be a critical window of opportunity to initiate a subsidy reform with SPJ programs playing a critical role in buffering the negative impacts on the poor, as has been the case in multiple contexts, including in Africa. While countries have often expanded coverage of SPJ programs to compensate the poor in response to the adverse economic impacts of reforms, Zambia is already in a good position with the ingredients of a solid safety net system in place. Complete elimination of subsidies could significantly hit the bottom of the distribution and increase poverty rates. The removal of fuel subsidies is generally followed by an increase in food and transport prices; higher energy prices could slow down economic activity leading to an increase in unemployment and societal unrest. Nevertheless, subsidy reforms are intricate and eliminating them needs to be properly assessed and discussed so that the net welfare effects are well understood.

72. In addition, fiscal reprioritization of spending within the SPJ sector toward more pro-poor and effective programs is also important and will require other high-level reforms. Pension programs, as in other countries, are highly regressive in that they benefit a small portion of households in the highest quintiles. Nevertheless, without discounting the importance of such programs, there are crucial reforms that need to be undertaken within the current pensions landscape of Zambia that could, in turn, allow greater financial resources to more progressive social assistance programs in the short term. These include: (a) reducing the commutation factors or lump sum benefits that civil servants are allowed to claim at retirement, for increased annuity payments



Figure 2.7: SIMPLE Strategy to build a robust SPJ sector in Zambia



Source: Author's illustration

over time, and (b) amending pension rules such that civil servants do not continue on the payroll if lump sum claims are not met by government. Undertaking these reforms, however, may require a re-interpretation of the 2016 Constitution regarding pension benefits.

Enhance Efficiency and Impact

73. In the medium-term, there are various programmatic design parameters that need to be continuously updated to maintain efficiency and impact. For example, for the SCT program, the targeting mechanism needs to reflect vulnerability trends, especially in a post-COVID-19 world, respond to increasing frequency of shocks, and is subject to updating welfare definitions when new national household survey data becomes available. Programs that use SCT beneficiary data, such as KGS and SWL, need to link their own beneficiary household IDs to the SCT database/MIS. This is critical for better beneficiary management and harmonization; further, for KGS, this would enable the smooth operationalization of the KGS lump sum grant that is paid once a year to every SCT household with a KGS beneficiary and for operationalization of any additional linkages to other programs (e.g., for monitoring compliance on other programs). Additional linkages for SCT households towards improved maternity protection, early childhood

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BOX 4: Examples of subsidy reforms and role of SPJ programs

Indonesia is experienced in using social protection programs in fuel subsidy reforms.

During the economic boom years (1970s-90s), consumer fuel subsidies were introduced in Indonesia to stabilize prices and protect the most vulnerable households. It was observed that as the country grew wealthier, subsidy benefits had largely been captured by the middle- and high-income households. Following the onset of the 1998 Asian financial crisis, fuel subsidies started posing fiscal pressures and became less effective. As a result, Indonesia initiated instant cuts in fuel subsidies. 2005, 2008 and 2013 saw further fuel subsidy reforms after which the government introduced temporary cash transfers, alongside existing programs, to protect the poor and economically vulnerable households from price shocks. The most significant program during that time was the Bantuan Langsung Tunai (BLT), an unconditional cash transfer covering 19.2 million poor and almost poor households. The most significant fuel subsidy reforms were initiated in 2014/15. The government reprioritized fiscal savings, as a result of reduction in central government deficit, toward social assistance, infrastructure, and health.

Pakistan's social protection program came about as a result of a series of energy subsidy reforms beginning in the late 1990s. Despite being a resource-rich economy, Pakistan found that the 2008 global crisis (leading to an increase in oil and food prices) together with adverse security issues aggravated the country's external imbalances. The increasing energy subsidies exacerbated the fiscal deficits, fueling inflation. Frequent natural disasters did little to ease the strain on the economy leading Pakistan to initiate a rigorous stabilization program in 2009/2010. Petroleum subsidies were gradually phased out while electricity tariffs increased multiple times. As prices spiraled, the government launched the Benazir

Income Support Program for the Poorest (BISP) to compensate and protect the most vulnerable groups of the population. Unlike previous social assistance programs, BISP provided broader coverage and strong targeting to set a platform for the poor and vulnerable. A National Socio-Economic Registry (NSER) was also created and maintained at the federal level. Both BISP and NSER continue to be the foundations of the SPJ system in Pakistan. While substantially more needs to be done, this well-established SPJ system facilitated compensations to cushion the impacts of reforms.

Morocco's social protection programs increased in scale to compensate for the losses generated through a food and energy subsidy reform process starting in 2012.

By 2021, all subsidies had been removed except those on liquified petroleum gas, flour, sugar and water, and commodities consumed primarily by low-income groups. In 2012, the energy subsidy bill was 6.5 percent of GDP, higher than spending on investments and combined spending on health and education. By 2015, it had reduced to 1.5 percent of GDP. At this time, existing national social protection programs scaled up substantially. The caseload of Tayssir, which provides cash transfers to poor families with children aged 6-15 years on the condition that they attend school at least 80 percent of the school year, increased from 80,000 families in 2009 to 466,000 families in 2014. Regime d'Assistance Médicale pour les Économiquement Démunis or RAMED, which gives free medical treatment to members below poverty line and highly subsidized treatment to those barely above the poverty line, increased its membership from 5.1 million individuals in mid-2013 to 11.46 million by 2017. In 2020, the government approved the establishment of a Unified Social Register to improve targeting in the sector.

Source: O'Keefe, Philip B., Puja Vasudeva Dutta, Harry Morog, and Robert Palacios (forthcoming).

"Diverse Paths: The Dynamic Evolution of Social Protection in Asia Pacific".

DFAT and World Bank; and Auktor, Georgeta Vidican, and Markus Loewe. 2021.

"Subsidy reforms in the Middle East and North Africa: Strategic Options and Their Consequences for the Social Contract".

German Development Institute Discussion Paper 12/ 2021.

development and nutrition, as well as Adolescent Sexual Reproductive Health, stand to play a pivotal role in harnessing social protection for human capital development. Adequacy of benefits is another design aspect that needs to be continuously assessed and updated as the inflationary pressures imposed by the macroeconomic situation in the country continuously erodes the value of the lump sum.

- 74. Additionally, the enormity and complexity of contextual issues often imply that programs need to adapt their implementation and foster links with other related interventions in related sectors.** All interventions operate in a context of high levels of monetary and nonmonetary poverty. High levels of physical and sexual GBV exacerbate existing fault lines and pose serious risks to achievement of project objectives. For example, as high as 10 percent of potential KGS beneficiaries do not take up the program after being given an offer, and 17 percent of them drop out mid-year. Reducing issues with take-up and retention would require that KGS step-up sensitization efforts in the communities and with guardians, establishing linkages with other education programs to improve the learning environment in schools and providing psychosocial support directly or through referrals to other organizations.

Improve Coherence

- 75. The sector needs to reduce fragmentation, particularly, within the pensions and JEI pillars.**

As described in detail in the Chapter 5, the current formal sector pension landscape comprises three pension funds—LASF, a legacy fund; PSPF, open only to defense and security government personnel; and NAPSA, a new fund established to enroll all new workers in the public and private sector. Consolidating around the new fund through a tiered pension system would both reduce administrative costs from operating LASF and move the sector toward financial sustainability as the benefit parameters for NAPSA are more actuarially fair than PSPF or LASF. The JEI pillar is highly fragmented and lacks a clear institutional mandate beyond the informal mandate of the Ministry of National Development Planning (MNDP) to coordinate the eight ministries that operate JEI programs. A clear JEI policy linking the jobs and economic diversification strategy to skills development and multisectoral economic

inclusion programs, and clarifying the institutional mandate for JEI, is a necessary starting point to ensuring that the pillar operates more coherently.

- 76. To the extent feasible, the sector needs to build on synergies and opportunities across pillars to provide a holistic set of SPJ benefits and to improve the overall effectiveness of the sector.** Some of these linkages include the provision of JEI programs to social assistance program beneficiaries. This is already part of policy in the form of cash-plus programming—SWL intervention targets women members of SCT households in targeted districts. This could be further operationalized for other programs too such as youth employment/empowerment programs. This not only allows other programs to capitalize on the existing targeting mechanism of SCT and a ready set of about 994,000 households (once the program scales up). In the vision of the IFBSPP, the SCT can crucially become a springboard for beneficiaries, if linked to income generating activities. Informal economy worker pensions are a critical gap in Zambia. However, new products are being piloted to extend the coverage of pensions to informal economy workers. In line with this, it would be worth considering if existing beneficiaries of social assistance and JEI programs, may be interested in participating in informal economy worker pensions, and if that would be financially sustainable for the providers of these pensions.

Larger Coverage and Gaps

- 77. The enormity of need in the country only merits further scale-up of social assistance programming.** The following analysis finds that the flagship social assistance program, SCT, covers only 16.5 percent of all poor households in the country. Scaling up to one million households will increase this coverage to 27 percent. Doing so would cost an additional US\$ 44.5 million per year or 0.27 percent of GDP which is equivalent to slightly more the average budget allocation to social assistance programs between 2014-20. Similarly, KGS covers only a small proportion of the total need for bursary support nationally. Hence, while there is a case to increase caseload across social assistance programs, the fiscal constraints to doing so are already well established and could be binding unless the government is able to prioritize spending in the sector vis-à-vis others and bring the economy back on track.

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ES	78. Additionally, previous weather-induced food insecurity and COVID-19 have shown the need to build adaptability into social assistance programs. Response to COVID-19 as well as previous weather-related crises have relied heavily on ad hoc financing and programming from UNICEF and other donors. While it is too early to assess the performance of the COVID-19 shock response (vertical and horizontal expansion), there are indications that the implementation has progressed well despite delays. Notwithstanding, given the regularity of climatic changes in Zambia, it would be efficient to start preparing for the next shock response by (a) putting in place clear financial planning linked to risk analytics, including through collaborations with the private sector, and (b) preparing programmatic systems to be shock sensitive, for example, through maintaining a list of potential beneficiaries in the event of a shock, or widespread financial inclusion of households living in high risk geographies.	79. Other gaps have gone unaddressed in the existing programmatic landscape. As highlighted earlier, there is a critical gap in terms of coverage for the 1000 most critical days of life, ⁵⁶ youth and informal sector pensions economy workers. While innovative solutions for informal economy workers are being devised, there is a need to scale this these up rapidly. Another critical gap that exists in the SPJ programmatic landscape is that of programs focused on employment and employability of youth. As discussed earlier, youth are disproportionately disadvantaged when it comes to being employed. However, there is a demographic dividend in the making and not addressing the needs of the youth will be equivalent to losing the potential opportunity of a whole generation. The absence of noncontributory maternity protection, finally, puts the 1000 most critical days of life at risk, when pregnant and breastfeeding mothers are exposed to monetary and multidimensional poverty—a gap that requires closure to improve the HCI of the next generation.
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56. Child's first 1000 days, starting from conception to age 2 years, is the most critical window of opportunity to prevent undernutrition. https://scalingupnutrition.org/wp-content/uploads/2013/04/Zambia_First-1000-Most-Critical-Days-Programme_2013-2015.pdf

ANALYSIS OF GOVERNMENT BUDGET AND SPENDING

There are conflicting estimates of allocations and spending on social protection overall across the various official reporting systems in the country. The Ministry of Finance's annual audited financial reports (used in this paper) estimates that total social protection allocation averaged about 0.6 percent of GDP during 2014-2018. The Zambia Statistics Agency reclassifies some expenditures and therefore reports a significantly different estimate of 0.1 percent of GDP during the same period. Finally, the NSPP lays out a broader scope for social protection, including FISP, the National Health Insurance Scheme and HGSM, leading to an estimate of total social protection allocation of 1.4 percent of GDP during 2014-2018.

The data used in this paper are from the consolidated annual Financial Reports of the Republic. These relate to budgets and expenditure of Ministries, Provinces and Agencies (MPAs) included in the National Budget. The fiscal year runs from 1st January to 31st December of a particular fiscal year. These reports are prepared by the Ministry of Finance and audited by the Auditor General. However, the scope of the NSPP formed the basis for identifying all line items pertaining to social protection. These programs and activities were classified according to the broad pillars of the NSPP, i.e., social assistance (including cash transfers, in-kind transfers, and fee waivers), pensions (including pensions and social health insurance), JIE programs, and protection. See Nalishebo (2020) for details.

Limitations and caveats: (a) There was inconsistent reporting of donor financing and expenditure for some budget lines. For instance, the donor funding for SCT was separately reported in 2014, 2015 and 2018 but was omitted (as a separate item) in 2016 and 2017. For the whole period, the actual expenditure for the donor component of SCT was not reported. Overall, the reporting of on-budget actual expenditure on social protection programs is not consistent. (b) There is no clear distinction between programs and activities, as well as some duplication in budget lines, mostly in the protection pillar. (c) There was a change in the accounting system over time and some seemingly arbitrary changes in some program and activity codes, making budget line follow up through the years challenging. (d) Some programs were not reported for all years. For all major social protection programs, data on budget allocations were similar in the Financial Reports and in line ministry reports. As a result, for analysis of budget trends, data was inserted from line ministries on budget allocations which were missing for some years. Missing values of authorized provisions are filled by equating their value to the sum of approved budget values and supplementary estimates of savings declared. Expenditure data is widely different between these two sources for most programs, so gaps in the Financial Reports could not be filled using line ministry data. It is possible that these differences are due to whether donor expenditures are reported in these two sources. However, it will be critical to reconcile these reports at the MOF and line ministries. Again, missing imputed values of authorized provision have been equated to approved budget values.


57. The MOF estimate includes a limited set of programs (public service pension fund, SCT, PWAS, and Food Security Pack). The ZamStats estimate includes a slighter larger set of programs (SCT, PWAS, FSP, and several Protection programs). The NSPP has the broadest scope (with public service pension fund, social health insurance, SCT, PWAS, FSP, FISP, other JIE and protection programs).





3 SOCIAL ASSISTANCE

Improving Equity and Promoting Resilience

- 3.1. Executive Summary
 - 3.2. Introduction
 - 3.3. Scale of the social assistance system
 - 3.4. Total coverage
 - 3.5. Program performance
 - 3.6. Recommendations: Moving towards a more efficient and effective system
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3.1.

EXECUTIVE SUMMARY

80. Poverty has a deep-rooted presence in Zambia, which the COVID-19 pandemic has likely exacerbated. Between 2015 and 2019, there has been an estimated increase in poverty incidence from 54 percent to about 56 percent of the population. With the COVID-19-induced economic contraction, poverty incidence is expected to increase further by 1.8 percent between 2019 and 2020 (Boban et.al., 2021). Most rural households also face recurrent weather shocks in the form of droughts and floods, while urban households have been disproportionately impacted by COVID-19. Zambia is also among the most unequal countries in the world, with substantial disparities in poverty incidence and human capital outcomes across regions and groups.

81. An effective social assistance system can help meet the basic needs of households steeped in poverty as well as support those temporarily falling into poverty. Evidence from Zambia and other African countries shows how cash transfers can lead to improvements in household welfare and help households invest in human capital and livelihoods (Beegle et al., 2018). In Zambia, evaluations of precursors to the Harmonized Social Cash Transfer (SCT) program, the largest social assistance in the country, show that for every kwacha transferred to a beneficiary, consumption increased by K 0.67 over and above the value of the transfer itself (Handa et al., 2018).

82. In recent years, the Government of Zambia has made considerable progress in expanding the number and coverage of social assistance programs in recent years. The flagship Harmonized Social Cash Transfer (SCT) program, the country's largest social assistance program, that currently has a nationwide caseload covering about 18 percent of the population, started as a small pilot in the early

2000s. With new programs introduced after 2014, Zambia's current government-led regular social assistance system comprises about five main programs (including the SCT, the Home-Grown School Meals (HGSM) and Keeping Girls in School (KGS) initiatives, PWAS and OVC bursaries), among others.

83. To support this commitment, the Government of Zambia has put in place a robust policy foundation since 2014. The National Social Protection Policy 2014 (NSPP) provides a broad framework within which social assistance programs operate. The Seventh National Development Plan (7NDP) reinforces the NSPP with targets to increase social assistance coverage from 40 percent to 70 percent of the poor, and spending from 0.7 percent to 1.7 percent of GDP. Additionally, the Integrated Framework for Basic Social Protection Programmes (IFBSPP) introduces the concept of cash plus programming. This reinforces the fact that social assistance programming is an essential ingredient of the maturing social protection sector in Zambia.

84. This commitment was manifest in increased budget allocations on social assistance programs since 2014. The social assistance budget allocation increased from 0.14 to 0.61 percent of GDP between 2014 and 2021, averaging about 0.28 percent of GDP during this period.

85. Despite the expansion, Zambia's budget allocation compares poorly with regional peers. Zambia's average budget allocation was about 0.29 percent of GDP, compared to the Sub-Saharan Africa average of about 1.5 percent of GDP in 2018.

86. In addition, these budget commitments have not to date translated to expenditures. For the period 2014-18, spending averaged only



0.12 percent of GDP, driven by a low average execution rate of about 53 percent. This is a function of broader fiscal challenges in Zambia, where all programs received less resources than were budgeted for them. However, social assistance budget execution is relatively less than other competing programs. For example, the average execution rate for the Farmer Input Support Program was close to 90 percent in the same time period. With continued shrinking of fiscal space, the situation may well become worse in coming years.

87. As a result, government financing is unpredictable and continues to remain reliant on donor financing. Announcements of budget allocations at the start of the budget year are often not followed through in terms of actual fund releases. Given the inherent unsustainability of donor financing, Zambia had embarked on the transition to government budget. For instance, the SCT is now, as per commitment, 75 percent financed by the government budget with the remaining funds coming through World Bank IDA financing, and the World Bank-managed Multi-Donor Trust Fund with co-financing from FCDO and SIDA.⁵⁸ Though programs, such as HGSM and the KGS, are still heavily donor financed, the flow of funds and implementation is entirely through government systems. However, there remains a large financing gap and the sector relies on donor financing to meet its social assistance commitments. In 2018, government share of total social assistance budget was 54 percent, but the actual spending share was much lower, at about 39 percent of total spending.

88. Given this lack of real budget execution, while on paper Zambia has one of the highest coverages of social assistance programs compared to other countries with similar levels of poverty in Sub-Saharan Africa, in reality, it underperforms most of its peers. Over four million people are currently enrolled in social assistance programs, accounting for

about 23 percent of population. Yet, given underfunding and low execution rate, only about 2.3 million equivalent⁵⁹ beneficiaries receive regular benefits. With respect to the SCT, for example, while the planned caseload was 632,327 households in 2018, the actual fully paid caseload was approx. 351,000 equivalent households.

89. Even if it were to be fully funded, Zambia's social assistance programs would fall short of meeting overall need. While the SCT program manages to cover intended beneficiaries across all provinces, there is a significant gap in terms of coverage of all poor, with about 70 percent of the poor not covered.

90. In addition to this coverage shortfall, the value of SCT benefits has eroded over time and falls substantially short of government's target. The nominal value of benefit amount has been increased only once in the last five years and the increase is not enough due to the rapid increase in inflation. In fact, at 5.2 percent of the national poverty line in 2019 (and expected to dip further to 3.6 percent by 2022 with anticipated double-digit inflation), the value of the transfer falls substantially short of the 7NDP target of 15 percent by 2020.

91. The main social assistance programs are well targeted to the poor. The spatial distribution of SCT caseloads is higher in districts with a greater number of poor. This translates to a largely pro-poor distribution of beneficiaries across the consumption distribution—about 90 percent of enrolled SCT beneficiaries belong to the first six deciles. KGS's spatial distribution of caseloads is similarly higher in districts with a higher SCT caseload, given its reliance on the SCT database to identify eligible girls. The program could have widespread impact if it could address inefficiencies arising from implementation challenges as well as contextual realities that affect beneficiary selection, take-up and retention.

58. Since the terms of the World Bank credit financing are highly concessional with a repayment period of about 30 years, it is considered as donor financing.

59. Defined as the number of beneficiaries that could have received all bi-monthly cash transfers, as designed, with the budget actually spent. In reality, the program tries to ration fewer bi-monthly payments to a larger number of beneficiaries. In the program reporting system, beneficiaries who received even one benefit payment would be considered covered.

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92. If fully funded, SCT has immense potential in terms of improving household resilience and human capital outcomes. In fact, simulations show that if the SCT program made regular payments to all its beneficiaries in 2020, the country's poverty would reduce to between 52 percent (with an enhanced SCT) and 54 percent (with status quo) despite the increase in poverty induced by COVID-19.⁶⁰ Here the status quo scenario assumes that beneficiaries continue to receive the same benefit amount per annum whereas the enhanced scenarios assumes that beneficiaries receive an inflation adjusted higher benefit amount. This implies that, in 2020, 0.7 million less people are expected to be in poverty if the SCT pays benefits to its full caseload, compared to the case if only the current partial caseload is paid. Increasing the transfer value would have a larger poverty impact.

93. A fully funded SCT program at a cost of between US\$49 million and US\$81 million, is a key first step towards addressing the severe poverty gaps in Zambia. While the enhanced SCT scenario does cost more, by virtue of the higher inflation adjusted transfer amount, the percentage point reduction per US\$ million spent is also higher than the status quo scenario that holds the transfer amount constant. In fact, while the value of transfer will erode in both scenarios, the real value would continue to be higher for the enhanced scenario, and hence provides a longer-term sustainable impact on poverty. However, given the overall fiscal constraint, there are policy trade-offs with respect to increasing transfer amounts to existing beneficiaries versus coverage to ensure more people in need receive some form of support. Many poor households are not covered by the SCT.

94. The immediate priority, in light of the challenging fiscal environment, is to close the gap between allocations and spending for current programs. This will require ensuring credible government allocations and releases and continuing to leverage support from development partners, at least in the short term, to grapple with the COVID-19 crisis. In addition, a number of program-specific measures can help strengthen the design and delivery of current programs.

95. Over the medium-term, once the current caseload is stabilized, a related priority will be to jointly finance a scale up to make the sector effective. Even with the enhanced SCT, about half the population of Zambia is expected to be poor in 2020. There is, therefore, a need for large fiscal outlays if Zambia is to address the challenge of persistent and large-scale poverty. In particular, it will be important to consider expanding coverage and simulate potential budget requirements and poverty impact of a further expanded program, within the framework provided by the NSPP. And, over time, the social assistance sector could move towards shock-sensitive programming and towards a cash plus approach, as advocated by the Integrated Framework for Basic Social Protection 2019.

60. The following scenarios are examined: Status quo SCT that pays its full caseload benefits; an enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2017 value of the transfer; and a further enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2020 7NDP target of 15 percent of the poverty line. These are simulations of hypothetical benefits, rather than an evaluation of impact that can be attributed to the program. As such, the findings presented need to be seen as indicative of the direction of impact, rather than definitive estimates.



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3.2.

INTRODUCTION

96. Poverty has a deep-rooted presence in Zambia, which the COVID-19 pandemic has exacerbated.

Estimates show an increase in poverty from 54 percent to about 56 percent between 2015 and 2019, likely driven by a slowdown in GDP per capita growth as well as recurring climatic shocks.⁶¹ It is estimated that COVID-19 have further increased poverty incidence by 1.8 percent between 2019 and 2020 (see Chapter 1). This poses a severe setback to even the miniscule gains made in the past and compounds the negative impact on poor households. A phone survey in July 2020, found an increase in food insecurity, with 39 percent of households reporting having skipped a meal and 41 percent of households reporting being concerned about running out of food (Finn et al., 2020).

97. Zambia is also among the most unequal countries in the world, with substantial disparities in poverty and human capital outcomes across regions and groups.

Poverty continues to be a largely rural phenomenon, with 80 percent of the rural population being poor vis-à-vis 25 percent of the urban population in 2019. Poverty has also been more concentrated in some provinces than others, with Luapula, Western and Northern provinces being the worst off, and Lusaka and Copperbelt

being among the least poor. There are also substantial disparities in human capital outcomes across regions and groups. The Human Capital Index (HCI) varies substantially across provinces, with surprisingly low correlation with poverty incidence. In addition, disadvantages related to human capital accumulation are disproportionately higher among poorer households. Against this backdrop of deep structural disparities, COVID-19 further threatens human capital outcomes such as education. In Zambia, less than half of children who were in school before the pandemic are engaging in any distance learning (Finn et al., 2020). School closures also deprive children of poor families of school meals.

98. An effective social assistance system can help meet the basic needs of households steeped in poverty as well as support those temporarily falling into poverty.

Evidence from Zambia and other African countries shows how cash transfers can lead to improvements in household welfare and help households invest in human capital and livelihoods (Beegle et al. 2018). In Zambia, evaluations of precursors to the Harmonized Social Cash Transfer program, the largest social assistance program in the country, show that

61. The poverty rate (national poverty line) is measured at K 214 per adult equivalent per month or US\$1 per day. Official World Bank Estimates.

ES	for every kwacha transferred to a beneficiary, consumption increased by K0.67 over and above the value of the transfer itself (Handa et al., 2018). ⁶² This points to beneficiary households having undertaken productive investments, leading to additional income and consumption in addition to the transfer itself. Similarly, evidence from the region suggests cash transfers improve educational outcomes such as enrollment, attendance, and cognitive skills among secondary school students, with these gains being pronounced in upper primary and secondary school (Beegle et al., 2018).	Programmes (IFBSPP) introduces the concept of cash plus programming, in the form of protection floors and promotion ladders through complementarities and coherence across the pillars of social assistance and jobs and economic inclusion. This reinforces the fact that social assistance programming is an essential ingredient of the maturing social protection sector in Zambia.
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V	<p>99. Acknowledging this potential, the Government of Zambia has made considerable progress in expanding the coverage of social assistance in recent years. For instance, the flagship SCT program, that currently has a nationwide caseload that covers about 18 percent of the population, started as a small pilot in Kalomo district in the early 2000s. Subsequently, the Government of Zambia has sought to protect human capital through the Home-Grown School Meals (HGSM) and Keeping Girls in School (KGS) initiatives. The government has committed to scaling up the HGSM program from 1 million to 2 million students by 2020 and the KGS program from 28,000 to 43,520 adolescent girls by 2024.</p> <p>100. Since 2014, there has been a robust policy foundation with both sectoral and national policies emphasizing the need to scale up social assistance.⁶³ The National Social Protection Policy 2014 (NSPP) provides a broad framework within which social assistance programs operate. The NSPP highlights three key objectives: (a) reduce extreme poverty and destitution among vulnerable and poor households, (b) enhance food and nutrition security for vulnerable populations; and (c) build the human capital of extreme poor households to stop inter-generational transfer of poverty (MCDMCH 2014). The Seventh National Development Plan (7NDP) reinforces the NSPP with targets to increase spending from 0.7 percent to 1.7 percent of GDP, social assistance coverage from 40 percent to 70 percent of the poor, and benefit levels. Additionally, the Integrated Framework for Basic Social Protection</p>	<p>101. Increased budget allocation reflects a commitment to social assistance programs; however, the challenging macroeconomic situation has led to persistent underfunding, continued donor reliance, and lower than planned coverage. Overall, the share of the social assistance budget increased from 0.14 percent to 0.61 percent of GDP between 2014 and 2021. This compares poorly with Zambia's neighbors; the Sub-Saharan Africa average for social assistance spending for 2018 was equivalent to about 1.5 percent of GDP. Of greater concern is the gap between fiscal commitment and spending; during 2014-18, actual spending averaged only about half of the authorized budget. This was largely a function of broader fiscal challenges in Zambia that reduced the release of funds from the treasury to line ministries, but social assistance budget execution was relatively low in comparison to other competing programs.⁶⁴ This underfunding means that only slightly over half of the planned caseload actually received regular social assistance benefits. As a result, despite the increasing government role in the sector both in terms of financing and implementation, there remains high reliance on donor financing, accounting for about half of budget allocations for social assistance in 2018. The government, therefore, needs to develop a financial sustainability plan to move this sector forward to realize the vision set forth through various policies.</p> <p>102. At the same time, persistent climate shocks and, more recently, the COVID-19-related economic contraction, necessitates an adaptive social assistance sector that is responsive to temporary increases in need. COVID-19 has particularly highlighted the transient</p>

62. The study evaluated the impact of the Child Grant Program and the Multiple Category Targeted Program.

63. Scale up refers to both coverage expansion and ensuring adequacy of benefit levels and predictable financing.

64. For example, the average execution rate for the Farmer Input Support Program was close to 90 percent in the same time period.

nature of need arising from such shocks, with disproportionate impact on urban households in general, and richer urban households in particular (Paul et al., 2021). However, rural households are also beset by recurrent weather shocks in the form of droughts and floods. There is a need to both deepen support for existing social assistance beneficiaries and expand support to households that suddenly face food insecurity needs following a shock. This not feasible when even basic social assistance programs face unpredictable financing.

103. Given the centrality of social assistance systems to Zambia’s anti-poverty and human capital investments, there is an urgent need to assess the efficiency and effectiveness of the sector with a view to improving it and understanding the financing needs to do so.

At present, the current underfunded social assistance programs fall short in meeting the scale and complexity of Zambia’s needs, especially in the aftermath of COVID-19. This chapter aims to identify gaps in the current system and identify opportunities to increase efficiency and effectiveness to meet the needs of the chronic and transient poor and vulnerable. The urgency of this analysis is as much driven by needs (persistent poverty and recurrent weather and economic shocks) as it is driven by the window of opportunity presented by the revision of the NSPP, the formulation of the eighth NDP in 2021-22, and the upcoming national elections in 2021, where findings from this chapter could promote an informed discussion around social assistance priorities.

104. The chapter is organized as follows: Section 3.3 examines the scale of the social assistance sector, starting with an analysis of trends and patterns of government spending in the context of challenging macro-fiscal environment that constrains the financing of social policy.⁶⁵ This section also compares spending and overall social assistance coverage in Zambia vis-à-vis potential needs (as proxied by poverty incidence) and vis-à-vis other countries in the region. Section 3.4 examines total coverage of the main social assistance programs, both in

terms of planned and actual caseload. Section 3.5 analyzes the performance of the main social assistance programs, in terms of program-level coverage, targeting, adequacy of benefit levels, and estimated or simulated impact on beneficiaries. Section 3.6 touches on options for maximizing the efficiency and effectiveness of the social assistance system, given the constrained fiscal environment. The most urgent priority is to close the financing gap and ensure that current programs are able to meet their objectives and have the desired impact.⁶⁶ The chapter concludes with brief recommendations for the overall social assistance sector.

105. There are two important caveats to the analysis in this chapter.

First, in the absence of survey-based information on program performance, the analysis relies on simulations (using administrative data on program caseloads and household survey data on consumption). These simulations perform rely on a wide set of assumptions, from the overall evolution of the economy to the composition of the population. However, the results were robust to different assumptions. These findings should be treated as indicative of program performance which would ideally be assessed using a household survey with data on both consumption and social assistance indicators. The analysis thus highlights key knowledge gaps and future directions. Second, much of the analysis that follows on program performance is focused on the SCT. This is justified both by its dominance in social assistance budget allocation and made necessary by gaps in data availability for other programs.

65. The report focuses on the central challenge of budget credibility; it does not focus on identifying operational challenges and bottlenecks in the flow of funds from the Ministry of Finance to the last mile. This would require a public expenditure tracking study or a detailed process assessment of the major programs which is beyond the scope of this report.

66. Efficiency is defined in terms of “the achievement of desired outcomes at the lowest possible cost” and effectiveness as “the achievement of the highest possible impact for a given budget” (Beegle, Coudouel, and Monsalve Montiel 2018).

3.3.

SCALE OF THE SOCIAL ASSISTANCE SYSTEM

106. Zambia's current government-led regular social assistance system comprises five main programs and a number of other relatively small programs and social care services.

These noncontributory programs provide cash, in-kind, and fee waivers to the so-called 'nonviable' poor or incapacitated households (i.e., those that lack inherent capacity to work, either because of no adult fit to work or a high dependency ratio) (MCDMCH 2014, Holmes 2007, Tembo, Freeland, et al., 2014).⁶⁷ The main social assistance programs include: Social Cash Transfer Scheme (SCT), Public Welfare Assistance Scheme (PWAS), the Home-Grown School Meals Program (HGSM), Bursary for Orphans and Vulnerable Children (OVCs), and the Keeping Girls in School (KGS) initiative. These programs are designed to help such households have more secure access to food and basic needs, while the latter three programs also explicitly promote human capital investments (Box 5; see Annex 3A for details). Other social assistance programs include social care services and other support for children, older persons, and other vulnerable groups.⁶⁸

107. Starting from a near negligible base in the early 2000s, the Government of Zambia has made considerable progress in expanding the number and coverage of social assistance programs. Zambia's oldest program, PWAS, was established in 1964, before the country gained independence. The Bursary for OVCs was introduced in the 1990s, to support the increasing number of children left orphaned and vulnerable due to the impact of HIV/AIDS. During this period, there were a few other government-led social assistance programs. Since the early 2000s, however, a number of pilot and small-scale programs have been implemented by the government with donor

financing and technical support. This chapter focuses on the three main programs that substantially expanded the coverage of social assistance.

- **SCT:** The largest social assistance program in the country, SCT was piloted in 2003 and has undergone considerable evolution since its inception. It started as a pilot, covering 159 households in Kalomo district, to test proof of concept on the desirability and feasibility of cash transfers. The initial expansion was gradual in the form of small pilots supported by a number of development partners (DPs) such as GIZ, DFID, Irish Aid and UNICEF. Post 2014, there was a massive and rapid expansion of SCT driven by extensive need (high levels of poverty and a large number of labor-constrained households) and evidence of demonstrated impact and operational feasibility in different contexts. SCT has evolved into a national program (the Harmonized SCT), implemented by the Ministry of Community Development and Social Services (MCDSS) (see Annex 3B for a detailed account of its evolution) (Michelo 2015, Costa et al., 2016). By 2020, SCT covered 616,464 beneficiary households (representing about 18 percent of the population). The program also transitioned to joint financing by the government and DPs. However, in 2018, the political fallout of a corruption scandal concerning the SCT program resulted in all financing to the program being frozen. More recently, DPs have begun to re-engage with the SCT program with the World Bank, SIDA and FCDO co-financing payments for approximately half of the SCT caseload.

67. In contrast, JIE programs in Zambia are designed to support so-called 'viable' or low-capacity households (defined as those that have the productive capacity) to become self-reliant and develop sustainable livelihoods. It is important to note that the policy dialogue has shifted focus from the distinction of viable and nonviable households and both types of programs broadly target the poor and vulnerable population.

68. These are included in the analysis of aggregate spending but are bundled together as "other" in the detailed analysis.



BOX 5: Main Social Assistance Programs in Zambia

Public Welfare Assistance Scheme (PWAS) (K 15.4 million; US\$770,000 in 2020) is the oldest social assistance program in Zambia, designed to provide basic necessities to the most vulnerable in the form of food, education support, access to health care, and support and repatriation of stranded people. The program targets the following groups: OVCs, older persons, households affected by HIV/AIDS, persons with disabilities, chronically ill and other vulnerable persons. A new initiative under PWAS, Service Efficiency and Effectiveness for Vulnerable Children and Adolescents (SEEVCA), aims to provide bursaries to primary school children.

Social Cash Transfer (SCT) (K 1,047.4 million; US\$52.4 million in 2020) is the country's flagship national social assistance program. It aims to reduce extreme poverty by providing regular cash transfers to poor households with high dependency ratios (those that include persons with a disability, the older persons above the age of 65 years, the chronically ill in palliative care, households headed by females with three or more children, and child-headed households). It has undergone significant evolution since its inception in 2003 and is now operational in all districts.

Home-Grown School Meal Program (HGSM) (K 34.6 million; US\$1.7 million in 2020) is the country's largest food-based safety net aimed at alleviating hunger and improving educational outcomes among school children while also reducing poverty among smallholder farmers. It covers over 1 million students in 39 districts across all 10 provinces, with plans to roll-out to 20 more districts. In 2019, the estimated total program cost was US\$16.3 million while cost per beneficiary was US\$14.86 (GRZ 2020).

Keeping Girls in School (KGS) initiative (K 45 million; US\$2.25 million in 2019) was introduced in 2016, as part of the World Bank-funded Girls' Education and Women's Empowerment and Livelihoods (GEWEL) project, to increase access to secondary education for adolescent girls. It provides school fees (both day and boarding schools) for up to five years for adolescent girls from poor households that benefit from SCT. In 2020, the program covered 28,000 adolescent girls in 29 districts.

Bursary for Orphans and Vulnerable Children (OVC) (K 37.4 million; US\$ 1.87 million in 2020) started in the 1990s and provides school fees (both day and boarding schools) for up to five years for both girls and boys living in rural areas.

- **HGSM:** In 2003, the World Food Program (WFP) started a school meals program to provide hot nutritious meals to students in selected schools. In 2011, this program transitioned to the HGSM program, providing food produced by and purchased from smallholders within the country, as far as feasible.⁶⁹ The school meal comprises cereals, pulses and cooking oil. Since 2016, the program has been jointly financed by the government and WFP. In 2019, the share of donor financing rapidly tapered off. Underfunding of the government share led to lower than planned total financing and slowed down the pace of coverage expansion. By 2020, the program covered 1 million

beneficiaries in 2,800 schools (representing 28 percent of schools in the country) in 39 districts across all ten provinces (MOGE 2020b).

- **KGS:** Introduced in 2016, as part of the World Bank-funded Girls' Education and Women's Empowerment and Livelihoods (GEWEL) project, KGS was designed as a complement to the SCT. By supplementing the SCT benefit, the KGS provides school fees for adolescent girls in secondary school who live in SCT beneficiary households. In 2019, the program was scaled up from 16 to 29 districts,⁷⁰ covering about 28,000 adolescent girls by 2020. KGS is currently entirely funded by the World Bank.

69. The program uses WFP's Purchase for Progress (P4P) platform to procure food commodities from smallholders and aims to promote the development of agricultural markets. The P4P program is implemented in 24 districts across six provinces (Prifti and Grinspun 2019).

70. Note: 2 districts are newly created break-away districts from the original 27 districts.

ES **108. Coverage expansion has stalled in recent years with the macroeconomic fiscal challenge facing the country.** The government has committed to a scale up of the SCT program (from 616,464 to 994,000 beneficiary households by 2022), the HGSM program (from 1 million to 2 million students by 2020), and the KGS program (from 28,000 to 43,520 by 2024). It is unclear how this scale up is to be achieved when these programs are struggling to cover their existing caseloads and there is a substantial financing gap for most

social assistance programs. In the case of HGSM, for example, the financing gap was estimated to be about 70 percent of the estimated resource requirement (given stated program targets) for the period 2016-19 (MOGE 2020b). The underfunded social assistance programs currently fall short in meeting the scale and complexity of Zambia's needs, especially in the aftermath of COVID-19. The spending and coverage patterns over the last five years, since the endorsement of the NSPP in 2014, are examined below.

3.3.1. Government spending

109. As historical data⁷¹ on allocations and spending across all social assistance programs is patchy, the focus is on recent trends since the endorsement of the NSPP in 2014. There are conflicting estimates of allocations and spending on overall social protection across the various official reporting systems in the country, with variations depending on the scope of programs and activities included in the social protection aggregate. The older social assistance programs, such as the SCT and PWAS, are included in all sources, so the social assistance aggregate is likely to be more consistent across reporting systems. The data used in this paper are from the consolidated annual Financial Reports of the Republic of Zambia, compiled by the Ministry of Finance and audited by the Auditor-General. The NSPP formed the basis for defining the scope and for classifying budget items according to the broad pillars of the NSPP, i.e., social assistance (including cash transfers, in-kind transfers, and fee waivers), social insurance (including pensions and social health insurance), jobs and economic inclusion (JEI) programs, and protection. There are issues with program-level data availability across programs and consistency in reporting over time (especially with respect to the donor share of financing and expenditure). These present a challenge in analyzing social assistance budget allocation and expenditure data over time (see Annex 2A and Nalishebo (2020) for details).

Trends in total spending

110. Budgetary allocations for social assistance increased between 2014 and 2021, averaging about 0.29 percent of GDP during this period. The authorized budget provision for social assistance programs increased from K 233 million in 2014 to K 2,381 million in 2021. The share of social assistance allocations in total GDP increased substantially from 0.14 percent of GDP to 0.61 percent during this period (Figure 3.1). In particular, the 2017 Budget more than doubled allocations to social assistance, amounting to about 0.37 percent of GDP. However, this scale up occurred during a period of eroding fiscal space for nondiscretionary spending, leading to a subsequent decline in the budgetary allocation to social assistance. With the COVID-19 crisis in 2020, budgetary allocations started to rise once again.

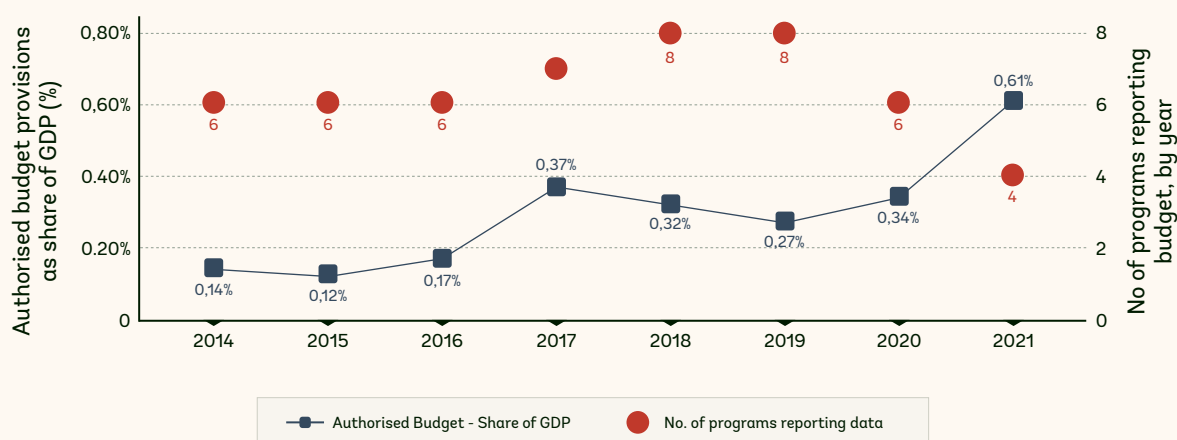
111. These figures compare poorly with government spending on social assistance globally and regionally. Zambia has the lowest spending share, estimated at 0.2 percent of GDP in 2017, among all East African countries (Figure 3.2).⁷² This is also substantially lower than the spending share of other Sub-Saharan countries, which mirrors the global average for developing countries of approximately 1.5 percent of GDP (Beegle et al., 2018).

⁷¹ This section draws on a background paper that Nalishebo (2020), prepared for this report.

⁷² Despite a three-fold increase between 2014 and 2019, the share of social assistance in government spending was less than 1 percent of GDP throughout this period.



Figure 3.1: Increasing budget allocation for social assistance (2014-21)



Note:

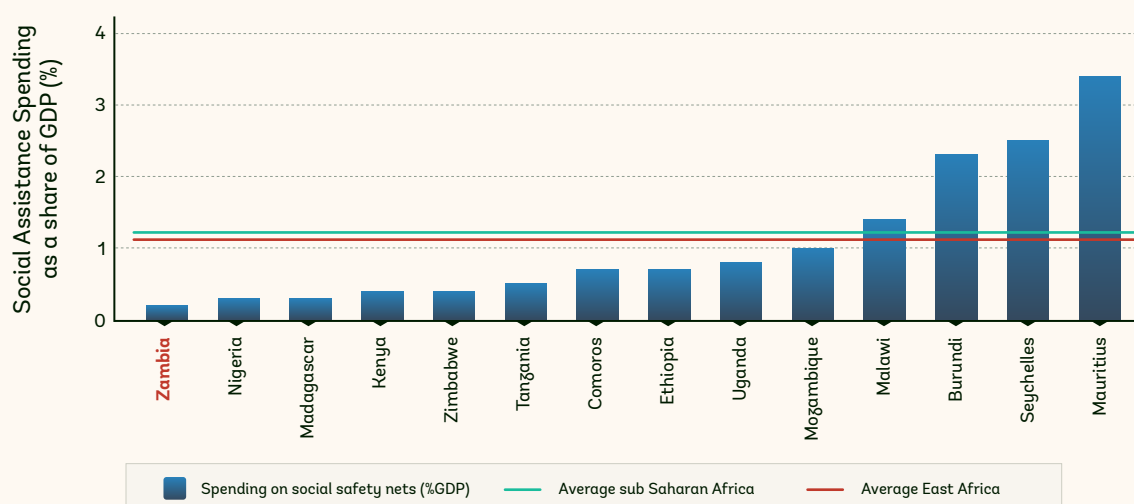
Budget allocations refer to authorized budget (approved and supplementary) provision for 2014-2018; for 2019-2021. It is assumed the authorized budget equals the approved budget. The budget estimate for total social assistance is slightly higher than that of MOF, due to the following adjustments: (a) budget data from MOGE was added for HGSM for 2015 and 2016; and (b) the approved budget was used to impute the authorized budget for the missing years for OVC, PWAS, and HGSM. Despite this, aggregate social assistance budget estimates for 2015 and 2016 may be a slight underestimate, as these do not include any provisions that may have been made for the OVC Bursary.



Source: MOF data, with definitions and scope as per the NSPP.



Figure 3.2: Zambia's spending on social assistance is well below the East African regional average



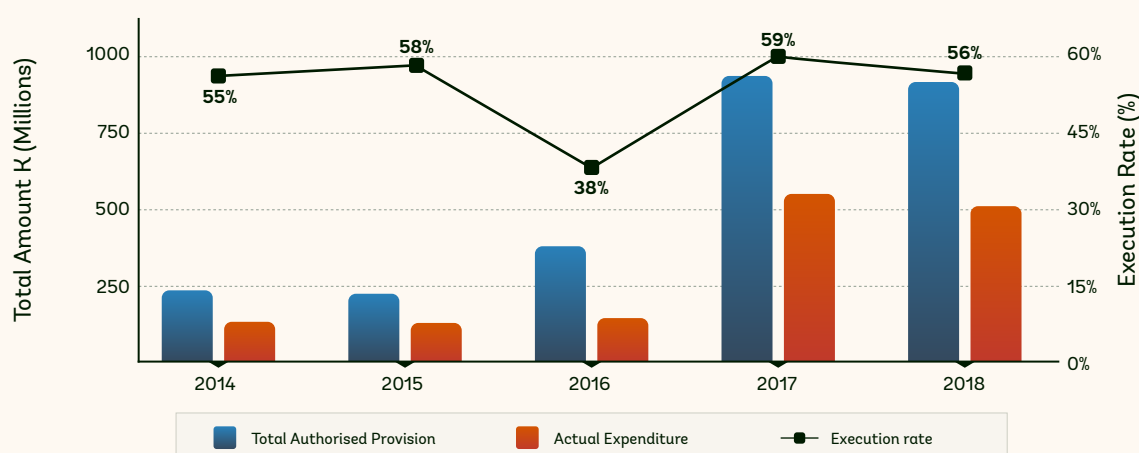
Note:

Data for Zambia is for 2016, for all other countries 2016-17.



Source: ASPIRE database (with modifications for the African social safety nets report (Beegle, Coudouel, and Monsalve Montiel 2018)).

Figure 3.3: Low execution rates imply much lower actual spending (2014-18)



Note:

Execution rate is defined as the share of actual spending in the total authorized budget (approved and supplementary) provision. Spending data is available only for 2014-18. Though SCT and HGSM spending data for 2019 are available from line ministries, they cannot be used to extend the time series as there have been wide discrepancies with MOF data in previous years. Revised budget estimates (with imputations from approved to authorized budget for HGSM in 2017 and OVC Bursary in 2018) and revised expenditure estimates (with imputation of 100 percent release for KGS as this is donor financing) have been used.



Source: MOF data.

112. However, budget allocation figures misrepresent the scale of the social assistance system as actual spending is well below allocation.

For the period 2014-18, spending averaged only 0.12 percent of GDP (representing 0.53 percent of government spending). Defined as the share of actual spending in the total authorized budget provision, the execution rate is low for social assistance. During 2014-18, actual spending averaged only about half of the authorized budget (Figure 3.3).^{73,74} Even this is likely to be an upper bound estimate of the execution rate, as the additional challenge due to low absorptive capacity is not fully taken into account. With continued shrinking of fiscal space, the situation may well become worse in coming years.

113. This low execution rate is largely a function of the broader fiscal challenges facing Zambia.

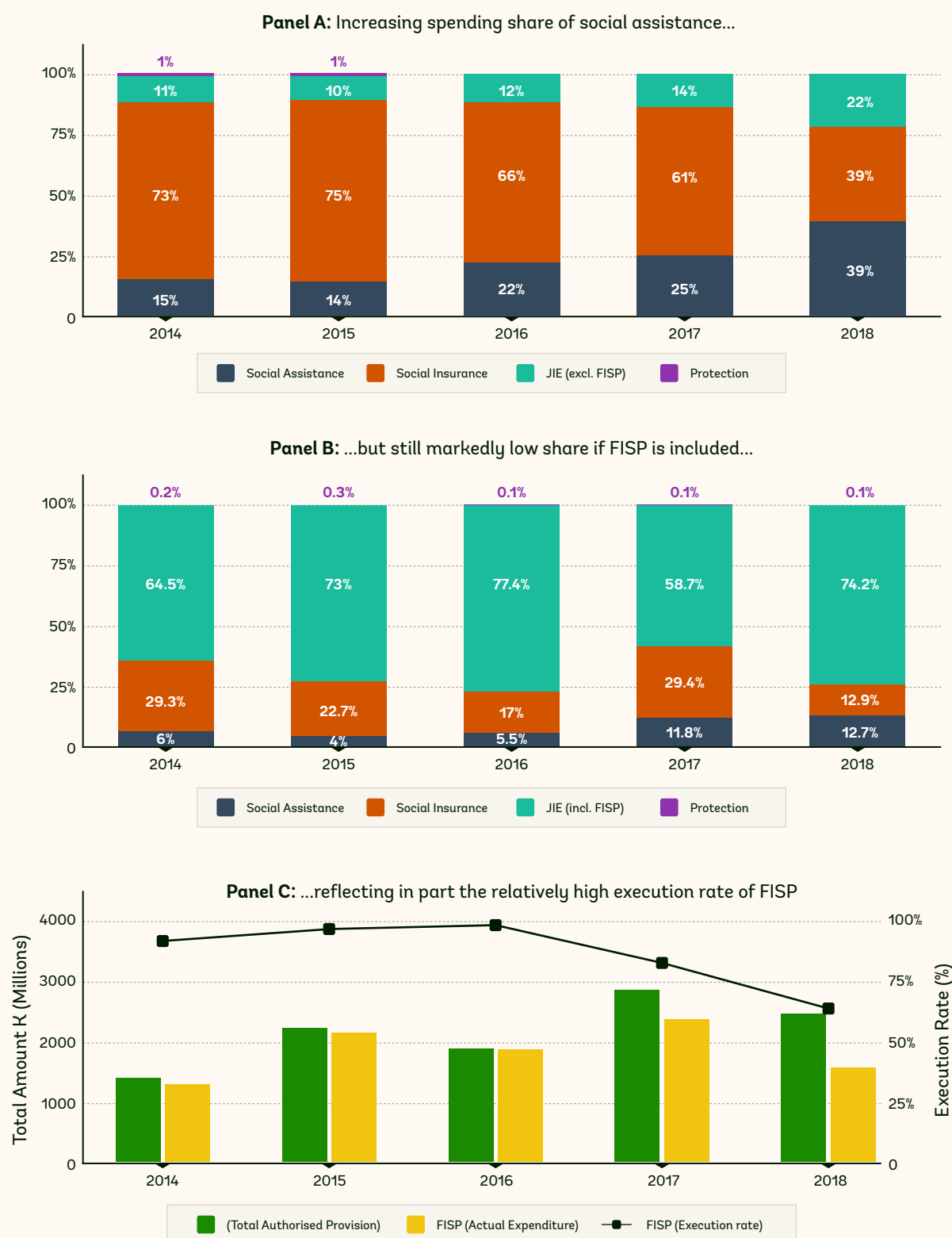
Following a period of rapid economic growth and expansionary fiscal policy, an inadequate revenue base and weak fiscal management have led to government spending substantially outstripping revenue. The situation was compounded by a series of external and domestic shocks in 2015, including a partial

drought and a sharp decline in the global price of copper, the main foreign exchange earner. Economic growth since 2015 has averaged 3 percent per annum, with the COVID-19 crisis resulting in the first contraction in 20 years. As a result, Zambia has incurred high fiscal deficits, averaging 7.4 percent between 2014 and 2019. Excessive reliance on borrowing to finance this deficit, largely on commercial terms, has increased the public debt stock, with total debt service rising from about 17 percent of domestic revenue to 46 percent during this period. This nondiscretionary expense, together with personal emoluments, has shrunk fiscal space for discretionary spending from 35 percent to 11 percent of domestic revenue between 2014 and 2019 (Nalishebo, 2020). As a result, social assistance (and other social spending) remains underfunded.

114. However, it is possible that low execution reflects the relatively low importance accorded to social assistance. Until 2017, social assistance spending averaged about 25 percent of total SPJ expenditure (including social insurance and jobs and economic inclusion programs) (Panel A). With the

73. Audited actual expenditure data from MOF is not yet available for 2019.

74. As previously noted, while MCDSS data on SCT budget allocations match MOF data, data on releases are substantially higher than MOF estimates in the early years of the program. Using these data, the execution rate was 100 percent between 2013-14, and then averaged about 75 percent between 2014 and 2017. By 2018, the execution rate started to decline to 47 percent in 2018.


Figure 3.4: Comparing social assistance to FISP


Note: Spending data is not yet available for all SPJ pillars after 2018. In addition, the share of social insurance is likely underestimated as no data is reported for two major pension schemes.



Source: MOF data.

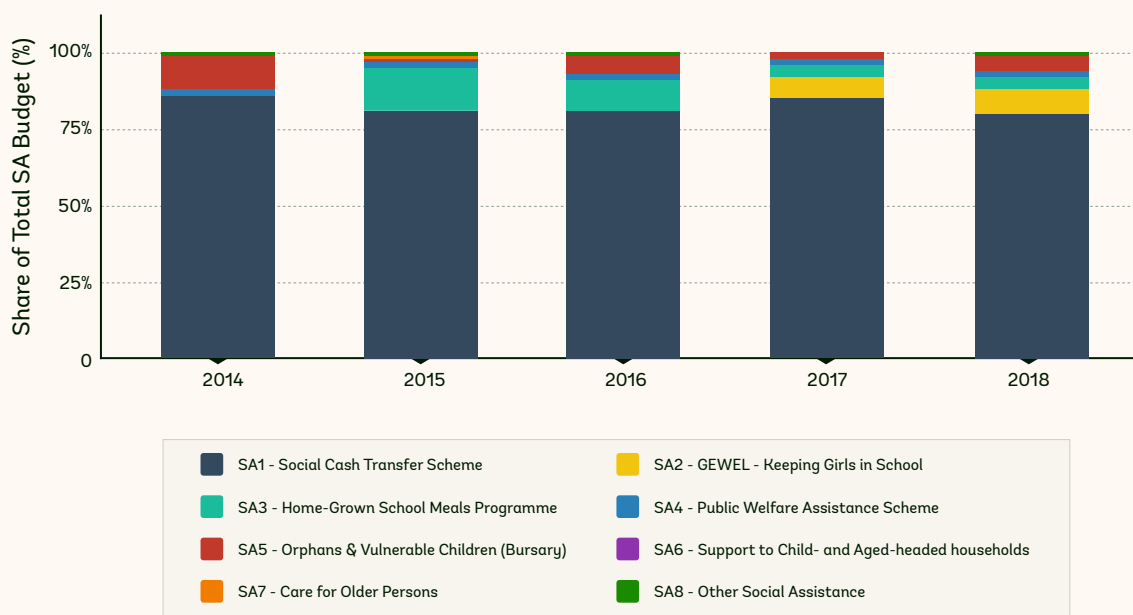
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expansion in the 2017 Budget, the social assistance share rose to about 39 percent in 2018. However, if the Farmer Input Support Program (FISP)⁷⁵ is included in aggregate SPJ spending, the share of social assistance spending falls to a mere 8 percent through the entire period of 2014-2018. In contrast, the spending share of FISP alone averaged about 66 percent during this period (Figure 3.4, Panel B). There is also a marked difference in government commitment to releasing the authorized budget across programs. Actual spending quite closely matched allocation for FISP, with the execution rate averaging about 87 percent during 2014-18 (Figure 3.4, Panel C). In contrast, as noted above, the execution rate for social assistance averaged only about 55 percent during this period.

115. As a result, budget commitments are not credible and social assistance financing is unpredictable. Announcements of budget allocations at the start of the budget year are often not followed through in terms of actual fund releases. In 2019, while KGS paid bursaries to 16,080 learners, there were no funds to pay beneficiaries of the OVC bursary or learners attending schools under PWAS (bursary presentation). Bursary support under PWAS has been virtually defunct due to erratic funding; a new initiative called the Service Efficiency and Effectiveness for Vulnerable Children and Adolescents (SEEVCA) (under the MCDSS) is expected to function better (Friedson-Ridenour and Milapo 2020). However, in 2019, despite a budget allocation of K10.8 million, no government funds were released to match donor financing of approximately K10 million (GRZ 2020).



Figure 3.5: The SCT is the dominant social assistance program, 2014-18



Note:

KGS expenditure data is imputed by assuming 100 percent execution rate (i.e., the full authorized budget provision is released) since the program is fully donor financed. OVC spending is reported as zero after 2014 but it is not clear if this is a data error (missing data) or genuine lack of budget release for the program.



Source: MOF data.

75. The Farmer Input Support Program (FISP) is implemented by the Ministry of Agriculture and aims to support smallholder farmers by providing in-kind agricultural inputs (fertilizer and seeds, largely for maize). Eligible farmers are those who actively engage in farming, have the capacity to cultivate between 0.5 and 5 ha, belong to a farmers' cooperative and are able to pay a 50 percent share of the subsidized package. Thus, FISP program beneficiaries are not necessarily poor.

3.3.2. Composition of spending

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116. The bulk of social assistance spending is on a single program—the SCT—while other programs are allocated small amounts. During 2014-18, the spending share of the SCT program averaged about 84 percent of total social assistance spending (Figure 3.5). There was a small drop in the spending share after 2017 with the introduction of the KGS program. During 2017-18, the spending share of KGS was approximately 11 percent of total social assistance spending. The spending share of HGSM is under-estimated as MOF data is not available for the earlier years. In later years, the share of HGSM averaged about 6 percent of the total spending. However, allocations for and spending on the older programs, such as PWAS and OVC Bursary and other smaller social assistance programs for children and older persons, are limited. This is not unusual,

especially when social assistance systems are just starting to emerge.

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117. With respect to the composition of spending by type of expenditure, the bulk goes directly to benefits but administrative costs are relatively high. The SCT program spends about 17 percent of overall budget on program delivery and staff costs.⁷⁶ The KGS program spends substantially more—about 45 percent of total program costs—on program delivery and staff costs. This variation reflects the significant additional investments needed to implement bursary programs, especially case management and GBV support services. It also reflects higher costs during initial years. Administrative costs are expected to decrease as programs scale-up and set-up costs are distributed over a larger number of beneficiaries.

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3.3.3. Share of donor financing

118. In recent years, there has been an important shift with respect to the role of government in the sector. Given the inherent unsustainability of donor financing, Zambia has embarked on the transition to government budget. The 2014 Budget was a watershed moment as it increased government financing commitment to the SCT by 700 percent. Though, these commitments haven't been met and programs such as HGSM and the KGS are still heavily donor financed, the flow of funds and implementation is entirely through government systems.

total spending. This puts Zambia in a similar situation to Benin and a less favorable position than other lower middle-income peers, Kenya, Ghana, Mauritania and Senegal, in terms of sustainability.

119. However, there remains a large financing gap and the sector relies on donor financing to meet its social assistance commitments. Figure 3.6 shows the de jure versus the de facto scenario in 2018. If the government had met all its budget allocation targets for social assistance programs, its contribution would be equivalent to 54 percent of all spending in the sector. With a low execution rate, the actual contribution to spending in the sector is about 39 percent of

120. Recent developments are indicative of a worsening situation in the coming years.⁷⁷ In the case of HGSM, the planned phasing out of WFP financial support led to a drop in donor share from 42 percent to 24 percent of total budget allocation between 2016 and 2019. However, due to substantial underfunding by government, WFP's share in actual spending actually increased from 44 percent to 65 percent during this period (MOGE 2020b). As of 2021, the World Bank credit financing together with grant financing from SIDA and FCDO will cover the majority (once the GEWEL Second Additional Financing resources become available to the government) of the financing needs.

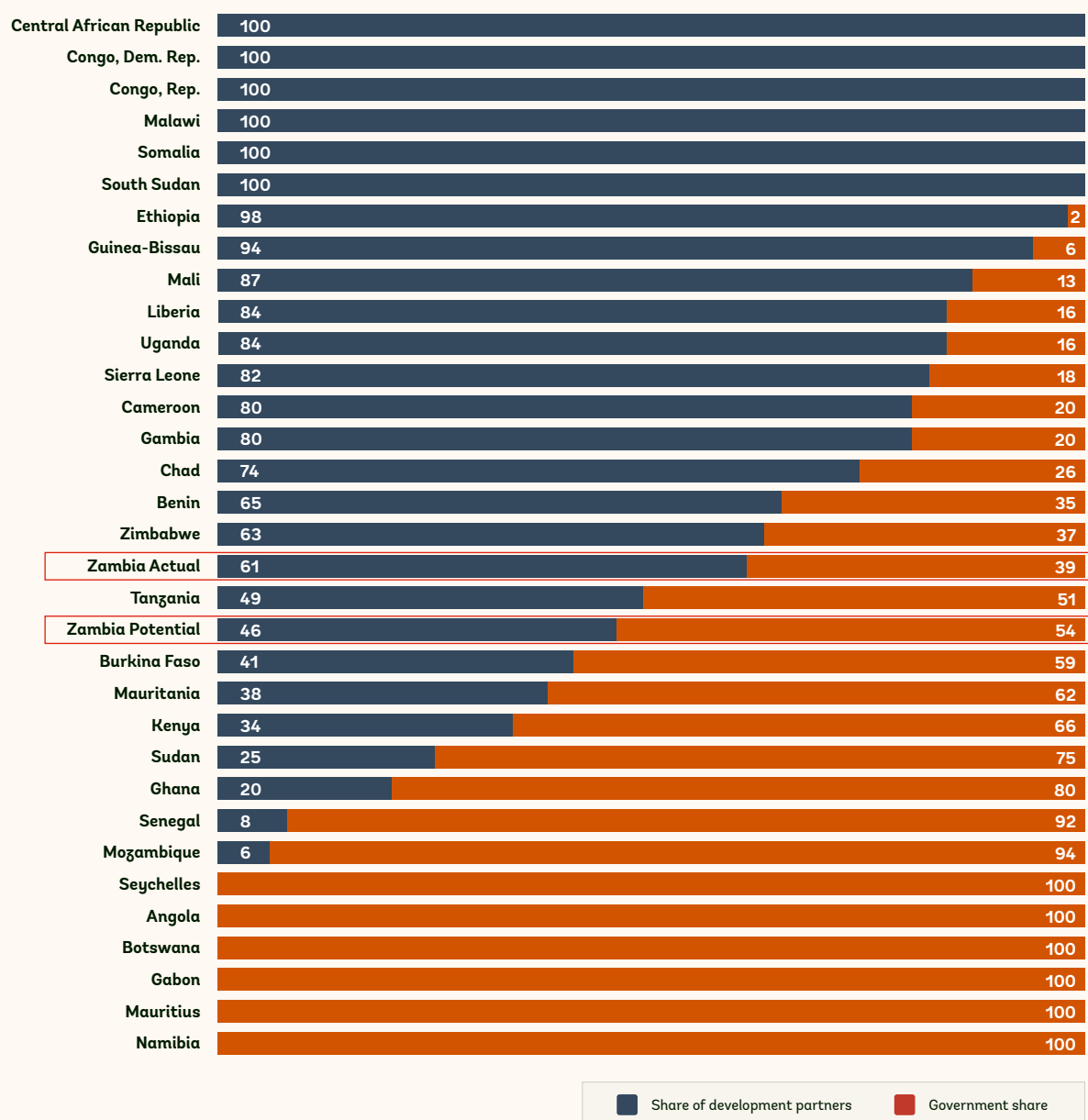
^{76.} These include cost of facilitating payment of transfers (28 percent), salaries (11 percent), vehicle maintenance costs (10 percent), monitoring and evaluation costs (9 percent), cost of operationalizing a grievance redress mechanism, communications, trainings, information system, and more.

^{77.} Analysis for 2019 cannot be done due to unavailability of spending data on other programs.

121. In the short term, donor financing will remain important in coping with the COVID-19 crisis, but over time, the government needs to develop a financial sustainability plan to realize the vision set forth through various policies. In the 2021 Budget, the government announced plans to further scale up SCT to additional “new poor” households impacted by COVID-19. Discussions are ongoing with the World Bank on financing the full caseload

of SCT beneficiaries and a scale up to 994,000 households until mid-2022. Over time, however, the transition to government financing will need to continue. The credibility of the government-led social assistance system will continue to be strained if fiscal commitments are not met sufficiently and there is continued reliance on DP-led programs to address urgent social assistance needs for both the existing poor and the new poor. There is a risk of the sector dwindling in size as DP-financing runs out over time.

Figure 3.6: Government share of social assistance spending in 2018



Source: Beegle, Coudouel, and Monsalve Montiel (2018), Administrative data for 2018 for Zambia.

3.4.

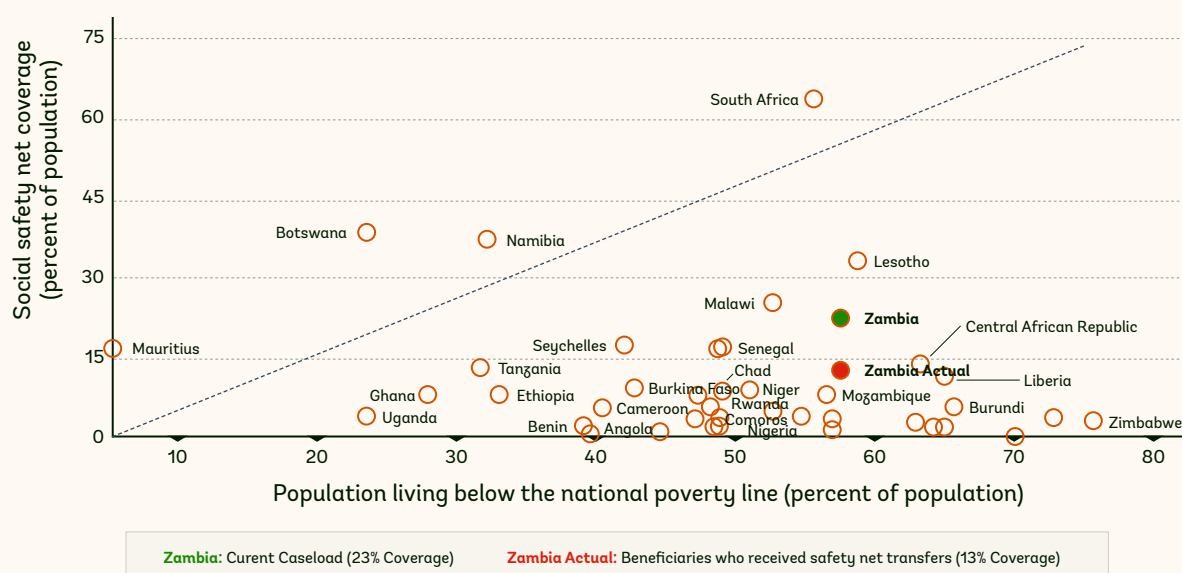
TOTAL COVERAGE

122. On paper, over four million people are currently enrolled in social assistance programs in Zambia, accounting for about 23 percent of the population. This estimate is based on administrative data for 2018 caseloads for the SCT (this includes the subset of KGS beneficiaries), HGSM, PWAS and donor-financed bursary programs. This number would be slightly higher if caseloads of other social assistance programs, such as the OVC Bursary and other smaller government- and donor-financed programs were included. However, this number is more likely an upper bound estimate, as it is assumed that there is no overlap across SCT, HGSM, and PWAS beneficiaries.

123. In reality, however, only about 2.3 million equivalent⁷⁸ people actually receive regular benefits from the major social assistance benefits. Given underfunding and low execution rate, beneficiaries may be enrolled in a program but may not necessarily receive benefits in any given year.⁷⁹ Overall coverage of social assistance programs is potentially relatively good when compared to its regional peers but remains unrealized due to financing shortfalls. This implies that while, theoretically, Zambia has one of the highest coverage of social assistance programs compared to other countries with similar levels of poverty in Sub-Saharan Africa, in reality, it underperforms in comparison to most of its peers (Figure 3.7) the green dot stands for the planned caseload, while the red dot stands for the estimated actual caseload).



Figure 3.7: The SCT is the dominant social assistance program, 2014-18



Source: ASPIRE database for all countries, except Zambia (based on updated administrative data for 2018).

78. Defined as the number of beneficiaries that could have received all bi-monthly cash transfers, as designed, with the budget actually spent. In reality, the program tries to ration fewer bi-monthly payments to a larger number of beneficiaries. In the program reporting system, beneficiaries who received even one benefit payment would be considered covered.

79. Execution rate is defined as the share of actual spending in the total authorized budget (approved and supplementary) provision. This rough equivalent of actual recipients is estimated by multiplying the total planned caseload by the 2018 execution rate (for all social assistance programs). This number is a rough estimate and will be lower to the extent that at least some beneficiaries receive payments from all social assistance programs.



BOX 6: SCT analysis: Microsimulation methodology

Poverty estimates. Household consumption was extrapolated from 2015 to 2019 and further to 2020 using IMF sectoral real GDP growth estimates for Zambia (last updated by IMF in July 2020). The real GDP was converted to real GDP per capita using national population growth rates for respective years. Based on the updated household consumption for 2019 and 2020, the poverty rate for 2019 and 2020 was estimated at the national level, as well as for rural and urban areas.

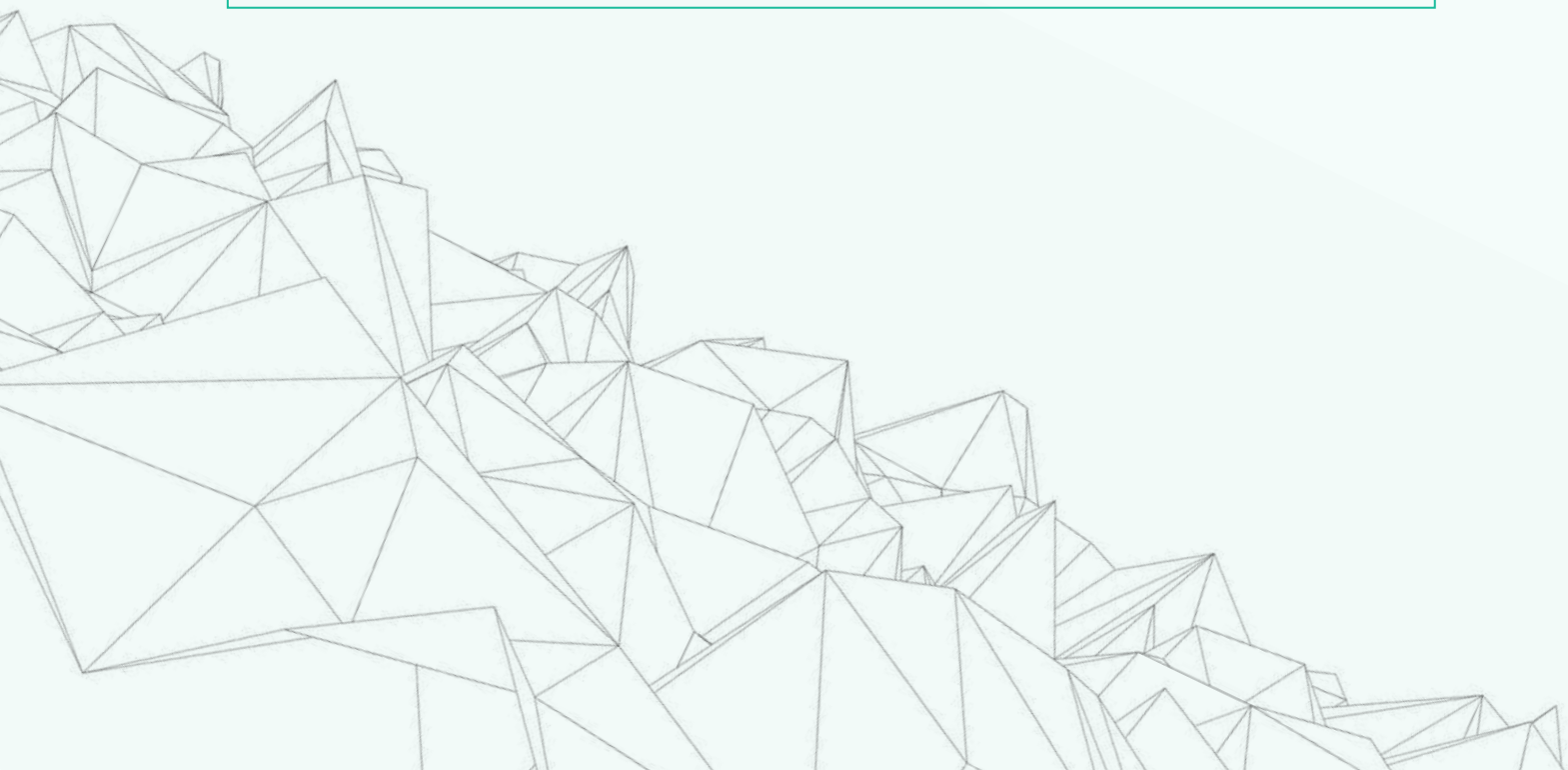
Program performance. Since the 2015 LCMS did not explicitly identify beneficiaries of the SCT program, an estimated distribution of coverage was constructed using eligibility criteria and overlaid it on the existing data. SCT targeting follows a two-step approach. First, it identifies households that meet one or more of four criteria—female-headed households with three or more children; households headed by persons with disabilities; households headed by a child; households headed by a senior (over 65 years of age). Second, it applies a proxy means test (PMT) to identify which of those households are likely to be extremely poor. To perform robustness checks, the program caseload was assigned in three different ways within each district:

- *Assignment to the poorest:* In each district, the caseload is distributed to households that meet the criteria and fall below the national poverty line;

- *Random assignment:* This represents the opposite of the first approach by assuming that the PMT is not effective in identifying the poor and distributes the caseload randomly among households that meet the categorical criteria; and
- *Mixed assignment:* It assumes that the PMT works partially and distributes half the caseload of each district randomly among the households that are eligible (i.e., meet the categorical criteria), and the other half to those eligible and poor.

The simulations in this chapter are presented using the mixed assignment approach. To guarantee that the results were not influenced by the randomization process, the results presented here are the averages of a Monte Carlo simulation¹.

Programmatic response. Three scenarios were used: (a) the status quo scenario keeps nominal transfer amounts constant for 2017; (b) the enhanced scenario increases transfer amounts so that the 2021 transfer value adjusted for inflation is equivalent to the 2017 transfer value; and (c) the 7NDP scenario increases transfer amounts to match with 7NDP target of 15 percent of the national poverty line.



3.5.

PROGRAM PERFORMANCE

124. This section examines the performance of each of the main social assistance programs, including, to the extent possible given data limitations, their coverage, targeting, adequacy of benefits and simulated impact on poverty. Much of the analysis that follows on program performance is focused on SCT. This is both justified by its dominance in social assistance budget allocation and spending and made necessary by gaps in data availability for other programs. For all programs, our analysis is limited by the fact that the household surveys do not include questions on social assistance. Estimates of coverage, targeting, and adequacy are based on administrative data and, in the case of SCT, on simulations combining these data with the household survey. The scale up of SCT was driven, at least in part, by evidence of significant impact on program outcomes. In contrast, other social assistance programs in Zambia have not been rigorously evaluated; program assessments have been relied on to examine whether these programs meet their objectives and to identify opportunities for improvement.

3.5.1. Harmonized Social Cash Transfer (SCT)

125. The SCT is the country's flagship national social assistance program and aims to reduce extreme poverty and intergenerational transfer of poverty among poor households with vulnerable individuals. The analysis of SCT program performance is based on administrative data provided by MCDSS and a microsimulation exercise using the latest household survey, the 2015 Zambia Living Conditions Monitoring Survey (LCMS). The microsimulation exercise was used to (a) estimate the consumption distribution in Zambia in pre- and post-COVID-19 scenarios and the corresponding poverty estimates; (b) simulate program performance in terms of coverage and targeting; and (c) simulate the impact and cost of alternative programmatic responses (see Box 6 for a summary and Annex 3C for details on the methodology used to assign the caseload across the households in survey data).⁸⁰ As these estimates of program performance are based on microsimulations, these findings should be treated as indicative directions rather than definitive measures. However, in the absence of a household survey with data on both consumption and social assistance indicators, these simulations are the only means of assessing

program performance. Where feasible, these findings are compared with the available research on the SCT and its precursors.

Coverage

126. The SCT program has undergone significant evolution since its inception in 2003 and is now a national program operational in all districts.⁸¹ In the first phase (2003-2010), five pilots, with some variations, were introduced with donor financing. These pilots aimed to cover the poorest 10 percent of the population in the districts served. By 2006, Government has already started contributing towards the SCTs and by early 2010, social cash transfers were implemented in eight districts and reached about 24,000 households. In the second phase (2010-2014), two variants—a Child Grant Program (CGP) and Multiple Category Transfer Program (MCP) —were launched, with joint government and donor financing. By 2013, these programs covered 61,000 households in 19 districts, with four different targeting models (labor-constrained, old age, child grant, and

^{80.} The consumption aggregates (from the 2015 survey data) were adjusted using the IMF projections until 2019, and the weights were adjusted to take into consideration the population growth. The remaining characteristics of the households were kept constant, assuming that they did not change significantly over these past years. For the adequacy analysis, the transfer value and inflation rate are used to assess evolution in real terms.

^{81.} See Annex 3B for a detailed account of SCT's evolution. See also (Tembo, Freeland, et al. 2014, Handa et al. 2018, Nalishebo and Muleya 2018, Michelo 2015, Costa, Gyoeri, and Soares 2015, Arruda and Dubois 2018, Kampamba et al. 2019).

multiple category).⁸² In 2014, these grants were consolidated into a single program with common eligibility criteria.⁸³

127. Since 2014, the SCT has substantially expanded coverage, reaching approximately 18 percent of the population by 2020. In 2014, the program received an eight-fold increase in the government budget allocation (from approximately USD3.5 million to USD30 million) and was scaled-up from 19 to 78 districts,⁸⁴ reaching national coverage by 2017 (Tembo, Chimai, et al. 2014). The total number of beneficiary households increased from 145,698 to 616,464 between 2014 and 2020, eventually covering about 18 percent of the population (Figure 3.8).

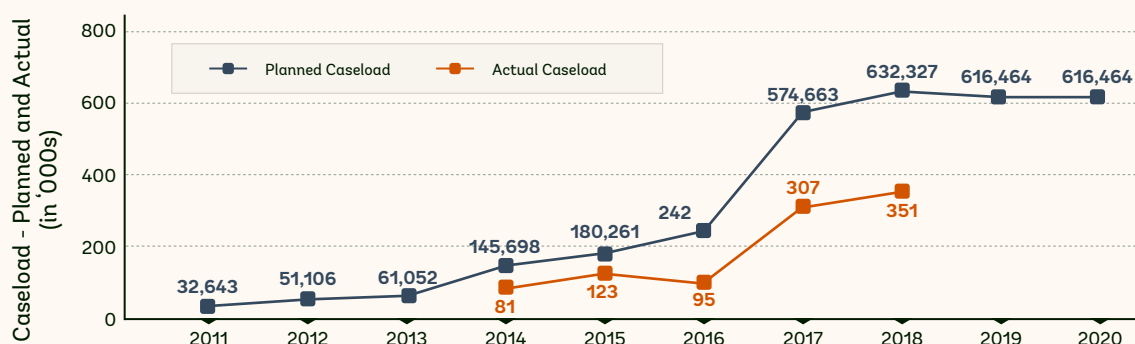
128. The actual equivalent caseload is much lower than the planned caseload, due to underfunding of the program.⁸⁵ As noted in the previous section, the low execution rate means that the number of equivalent beneficiaries who actually received cash transfers is far lower than the total beneficiaries enrolled in the program. In 2018, the

planned caseload was about 632,327 beneficiaries enrolled in the program. Of these, only about 350,642 equivalent beneficiaries actually received regular cash payments (Figure 3.8).

129. Given that the SCT is the largest social assistance program in Zambia and a core element of the government's poverty reduction strategy, coverage falls well short of need. Simulations of the spatial and household-level distribution of coverage throw up some interesting patterns (see Box 6 for methodology). As previously noted, although these simulations cannot provide definitive measures of coverage, broad patterns can be inferred and examined more rigorously with new and more comprehensive survey data. Figure 3.9 compares the planned caseload with the distribution of households that meet some or all SCT eligibility criteria: The green lines refer to the total caseload (i.e., all those enrolled). The dotted blue boxes refer to the share of poor households. The orange bars refer to the number of households that are eligible (based solely on



Figure 3.8: Rapid scale up of SCT planned caseload (2014-2019), but actual equivalent caseload falls short



Note: Planned caseload refers to all enrolled beneficiaries. Actual equivalent caseload refers to recipients i.e., all those enrolled and potentially receiving the benefits in any given year. Actual equivalent caseload is estimated by applying the SCT execution rate to the planned caseload for respective years. Please note that this is the rough estimate based on actual expenditure compared to the total budget provision. In case the total budget provision is equal to actual expenditure, the planned and actual caseload would be the same. Execution rate is not available for 2019-2020.



Source: MCDSS data (on caseloads) and MOF data (on execution rate).

82. Initially, the labor constrained targeting used the 10 percent inclusive model, however, based on the targeting assessment that the ministry conducted in 2013-2014 Government adopted a single targeting model of Inclusive model without 10 percent ceiling as eligibility criteria.
83. The program covers vulnerable households, defined as those that include persons with a disability, the older persons (those above the age of 65 years), the chronically ill in palliative care, households headed by females with three or more children, and child-headed households.
84. The original paper quotes the scale up from 18 to 50 districts. However, the districts were reorganized in 2017 based on which the number of districts is updated to 78.
85. Defined as the number of beneficiaries that could have received all bi-monthly cash transfers, as designed, with the budget actually spent. This rough equivalent of actual recipients is estimated by multiplying the total planned caseload by the 2018 execution rate. In reality, the program tries to ration fewer bi-monthly payments to a larger number of beneficiaries so this figure is likely an underestimate in some sense.

categorical criteria). The grey bars refer to those that are (categorical) eligible and poor, i.e., the intended program beneficiaries. A comparison of the grey and orange bars shows there is a large difference between the number of households that are categorically eligible and the intended program beneficiaries (i.e., categorically eligible and poor) at the provincial level. In particular, the following key findings emerge from these simulations (Figure 3.9):

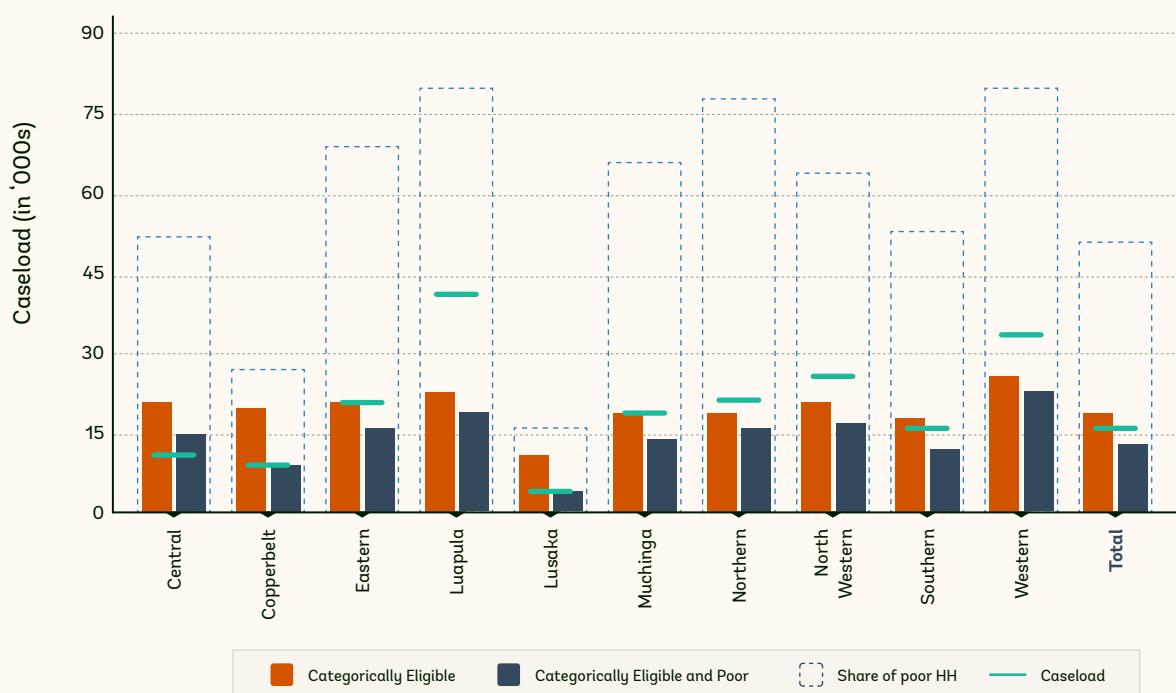
- The planned caseload was sufficient to cover the intended beneficiaries, i.e., categorically eligible and poor households, in almost all provinces, except the Central province (i.e., the green line is above the grey bar).
- Most provinces, except the richer provinces (namely, Central, Copperbelt, Lusaka, and Southern provinces), also have a sufficiently high caseload

to cover all (categorical) eligible households. In fact, in the poorer provinces (namely, Luapula, Western, and North Western provinces), the planned caseload is substantially higher than even the (categorical) eligible (i.e., the green line is well above the orange bar), which is likely due to the vulnerable being underrepresented in LCMS 2015.

- However, in almost all provinces, there is a large number of poor households that are not covered (i.e., the green line is well within the dotted blue box). This is consistent with program design as these additional poor households likely do not meet the categorical eligibility criteria of the program. However, as the single largest social assistance program with the aim to reduce extreme poverty, the design of SCT leaves a large number of poor households without support.



Figure 3.9: Reasonable coverage of (categorical) eligible, but large under-coverage of poor households (2019)



Note: Household consumption is extrapolated from 2015 to 2019 using IMF sectoral GDP growth estimates. Program caseload is assigned to households in the survey using mixed assignment (see Annex 3D). The share of poor households is estimated using the national poverty line. Further analysis by rural and urban location was not feasible as the district-level caseload data does not provide this information.



Source: Microsimulation exercise, based on MCDSS data on district-level caseload (2019), 2015 LCMS, and IMF sectoral GDP growth estimates.

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Targeting

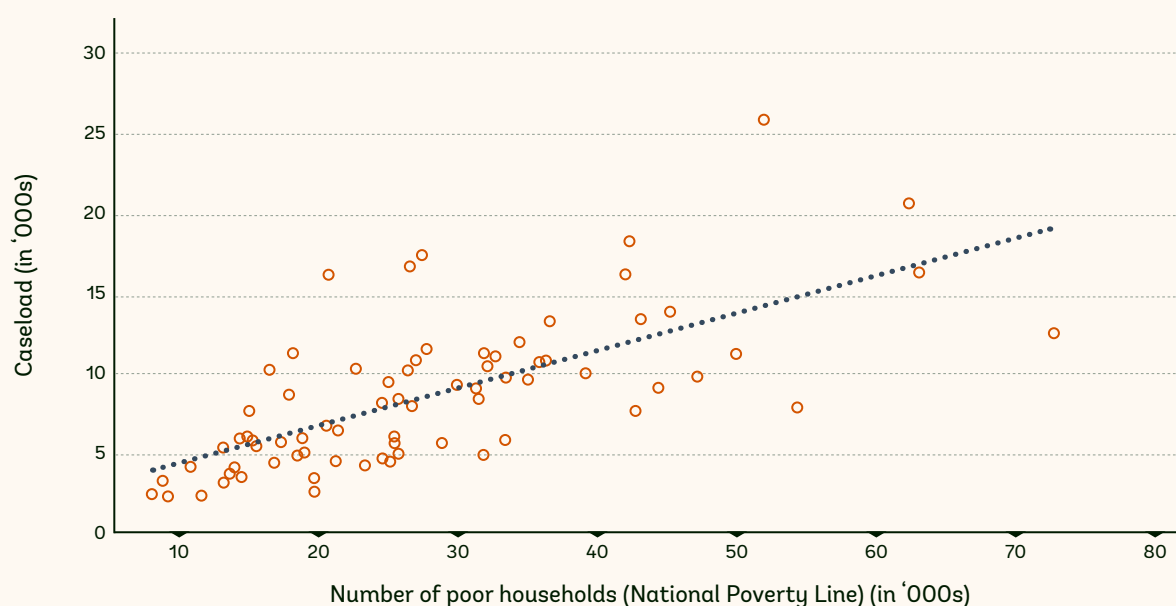
130. The program appears to be reasonably well-targeted across provinces and districts, with scope for improvement in some districts. The planned SCT caseload (in terms of number of beneficiaries enrolled) is higher in provinces with a higher (projected) number of poor households in 2019.⁸⁶ This is also the case at the district-level, despite some variation (Figure 3.10). This is roughly consistent with an earlier analysis of the SCT enumeration data from 2014-2017 that was used to enroll beneficiaries.

131. In addition, the rationing of funds across districts is relatively pro-poor. As noted above, there is a gap between the number of beneficiaries enrolled in a program and the number that actually receive payments, largely

because fund release to the line ministry is lower than the budget allocation. In response, program implementers try to rotate funding to ensure all beneficiaries are paid at least once in any given year. Decisions to release funds at the provincial-level are typically based on need (proxied by the poverty rate) and the caseload, with a key political economy consideration being the need to ensure sufficient funds to disburse in all districts rather than a subset of districts in each province. Looking at payment releases up to September 2020 (i.e., January-September transfers), districts with higher coverage and higher poverty incidence were prioritized and were more likely to receive SCT funds to pay beneficiaries relative to others (Figure 3.11). By the end of the year, all districts had received some degree of funding.



Figure 3.10: Spatial distribution of the SCT caseload is aligned with poverty at the district-level, 2019



Note: The dots represent 74 districts in the 2015 LCMS which are mapped to the current 117 districts with respect to the planned caseload.



Source: Microsimulation exercise, based on MCDSS data on district-level caseload (2019), 2015 LCMS, and IMF sectoral GDP growth estimates.

86. 2019 district-level poverty estimates are based on 2015 LCMS, with household consumption extrapolated using IMF sectoral GDP growth estimates and assuming homogenous population growth across different groups (see Box 6).

132. At the household-level too, the distribution of the beneficiary households is progressive.

The majority - 89 percent of enrolled beneficiaries - are in the first six deciles of the income distribution (Figure 3.12). A small share of beneficiaries - about 11 percent - in higher income deciles are also enrolled, but this is a relatively small proportion.⁸⁷ A program assessment of the oldest SCT pilot in Kalomo district also found progressive targeting (Schuring 2007). A later study found high levels of inclusion and exclusion errors for both CGP and MCP (Beazley et al. 2013). However, these precursors to SCT used different targeting methods, with a 10 percent threshold and community-based targeting to select the poorest households in respective communities. It appears the Harmonized SCT is well-targeted, but definitive estimates will only be possible using a more comprehensive household survey.

133. This indicates that the geographical distribution of the caseload and the combination of categorical and poverty targeting are able to reach poor households.

This is partly because of the progressive spatial efficiency in distribution of the caseload and partly because households with members meeting the categorical eligibility criteria tend to be poorer than the overall population. In 2019, 63 percent of categorically eligible households were poor as opposed to 43 percent of the (categorical)

noneligible households. The application of a PMT likely further refines the focus on the poor.

134. However, the accuracy of the PMT to identify the poor and exclude the nonpoor could be eroding over time for several reasons.

One, the design of the PMT is based on regression analysis of the 2010 LCMS. Over time, particularly with the incidence of several recurrent shocks, it is possible that the variables closely associated with poverty, or the weights assigned to them, have changed. The 2015 LCMS is also dated and there is no new household survey to update the design of the PMT to better reflect the current poverty profile. Second, field-based assessments of programs that rely on the SCT database for identifying their beneficiaries suggests that the database is not regularly or systematically updated (IDInsight 2019, Friedson-Ridenour and Milapo 2020). In one district, for example, a recent review of the Supporting Women's Livelihoods (SWL) program found that the SCT database had not been updated since the enumeration and enrolment in 2014 and 2018 (IDInsight 2019). By ensuring timely updates to the database, the SCT database can be made more dynamic. In addition, a gradual evolution to a beneficiary registry would provide a sounder basis for the SCT and other programs to use this common delivery platform. The more programs that use the common registry, the more cost efficient it will be.

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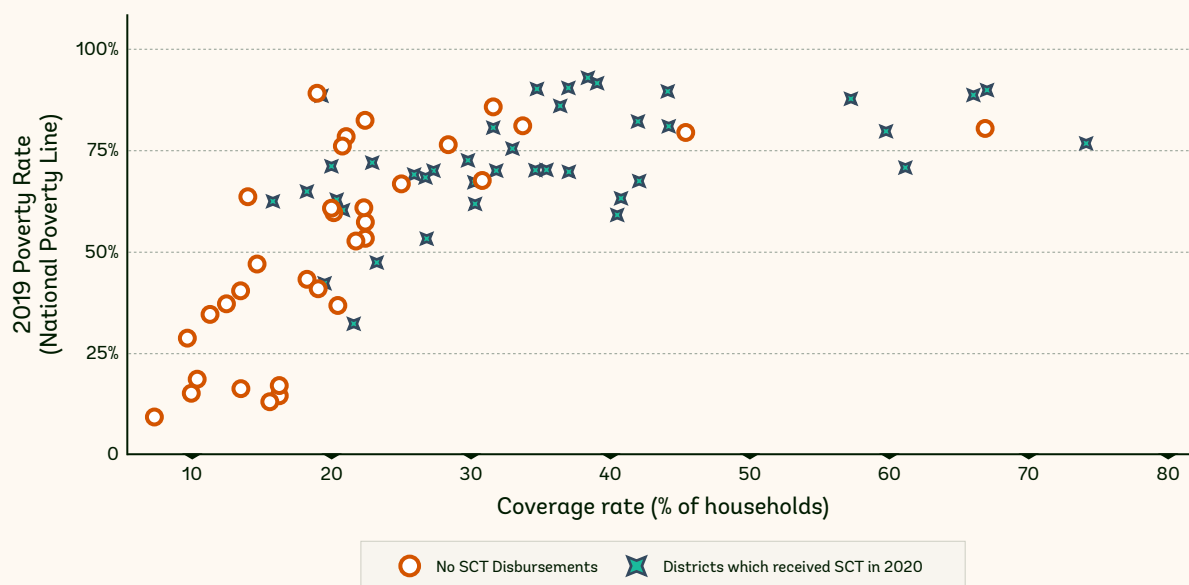
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⁸⁷ These estimates are based on the mixed assignment of benefits (see Annex 3E). However, alternative methodologies used to assign benefits also confirm this finding. With the first methodology, where benefits are assigned to the poorest households in each district, this is entirely expected by construction. However, while assuming that the PMT would perfectly identify the poorest, there are still about 6 percent of the households in the top 4 deciles. This indicates that there could be districts where the caseload is too large to cover only the poor, generating spillovers. Even in the random assignment method, almost 60 percent of the benefits reach the bottom 3 deciles of the population.



Figure 3.11: Poorer districts with higher SCT coverage are more likely to have paid beneficiaries the Jan-Sep 2020 transfers

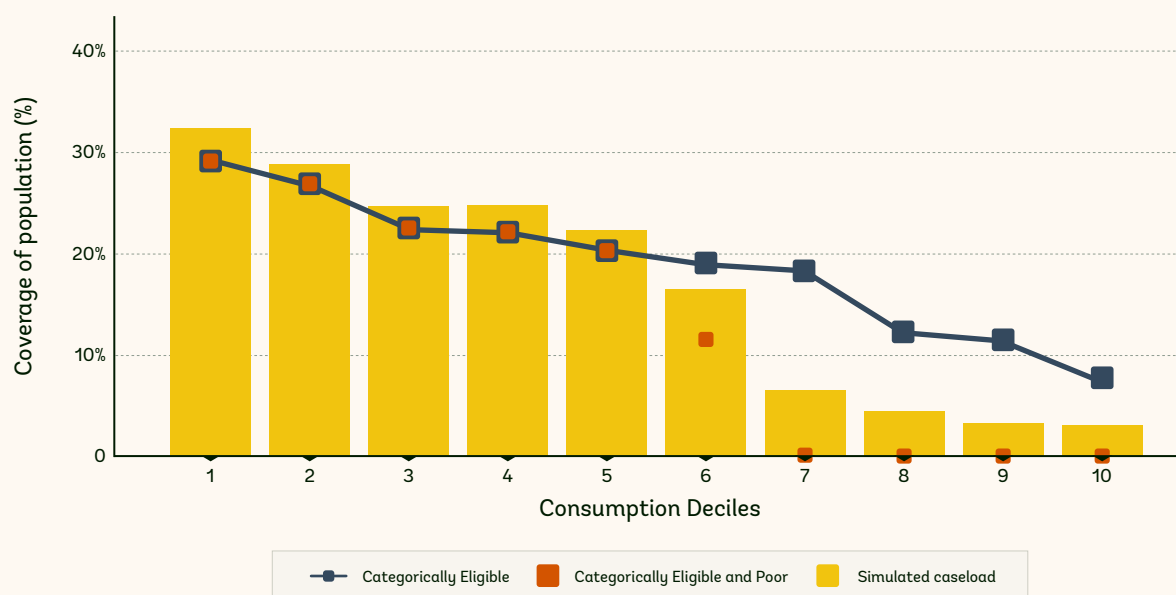


Note:

Coverage rate is calculated at the district level as a share of total SCT-enrolled households in respective districts. The 67 districts (mapped to 40 districts in LCMS 2015) have paid all pending 2020 transfers to its beneficiaries between October 2020 and January 2021 through the GEWEL program financing. Data for all 117 districts were not available.



Figure 3.12: Simulated household-level targeting is progressive



Note:

The planned caseload from the administrative data for each district is distributed across categorically eligible households with poor households having a higher probability of being selected (see Box 2 and Annex 3C for details).



Source: MMicrosimulation exercise, based on MCDSS data on district-level caseload (2019), 2015 LCMS, and IMF sectoral GDP growth estimates.

Adequacy

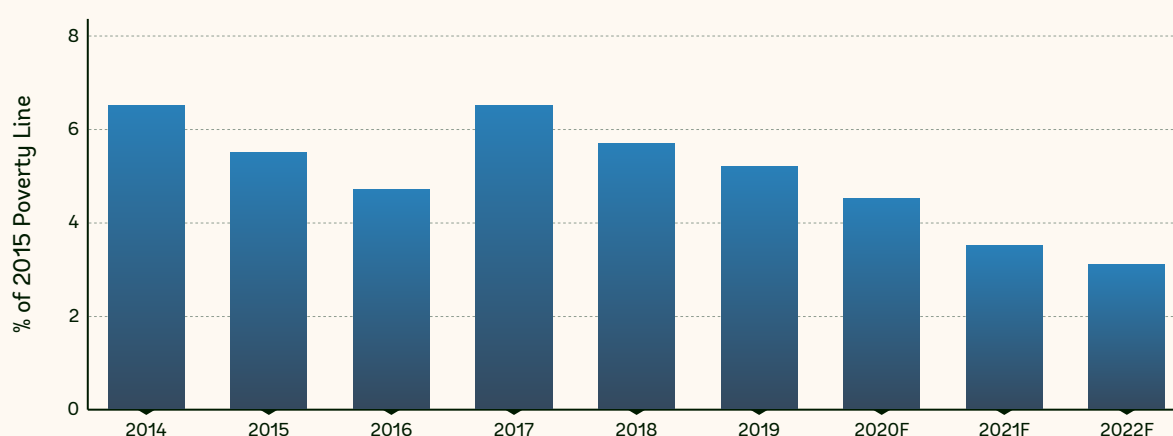
135. The adequacy of transfer is low relative to the national per capita poverty line, and the value of benefits has eroded over the years due to high and fluctuating inflation. The nominal value of the benefit amount has been increased only once in the last five years from K840 to K1080 per household per annum.⁸⁸ However, the increase is not enough due to the massive increase in inflation over the years. shows that, after adjusting for prices, the value of transfer as a share of national per capita poverty line goes from 7.1 percent (when the program was initiated in 2014) to 5.2 percent in 2019 which is below the original transfer value. With double-digit inflation expected in

2020-2022, the value will dip to 3.6 percent by 2022. Therefore, to maintain the real value of the transfer, it is important to adjust the transfer amounts annually with the annual inflation.⁸⁹ This was the case up until 2014.

136. The current benefit levels also fall short of the government's target. The 7NDP aims to increase the benefit amount by more than three times, from 7 percent of the national per capita poverty line in 2017 to 15 percent by 2020 (and further to 21 percent by 2021). This would require the current benefit amount to increase quite substantially, which has equally enormous budget implications.



Figure 3.13: Gradually eroding real value of the monthly transfer



Note: The transfer amount is that to regular households (but without the additional benefit for households with a person with disability). The 2015 poverty line = K 214 per month per adult equivalent; assuming 5 adult equivalent members per household; 2014 transfer amount of K 70 per household per month, revised to K 90 per household per month in 2017. 2020F, 2021F, 2022F are forecasted transfer values for the years 2020, 2021, and 2022 based on inflation estimates from IMF WEO.



Source: Bank staff estimates, based on administrative data on transfer amounts and inflation figures from IMF World Economic Outlook (WEO).

⁸⁸. On paper, households that meet the vulnerability criteria receive a flat monthly grant of K 90 (approximately US\$4.5) per household, while households with persons with disabilities receive bi-monthly grants of K 180 (approximately US\$9).

⁸⁹. Please refer to inflation adjusted transfer amounts in Table 1.

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Impact: Actual and Potential

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137. The SCT program has had transformative impacts on beneficiary households as it evolved in design and coverage over time. A

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number of studies have evaluated the impact of the pre-national versions of SCT (see Annex 3B). Overall, the program has had large impacts on protection (the primary objective) and productive outcomes, discounting any concerns of dependency and suggesting that the program may lead to sustained improvements in living standards. A brief summary highlighting key directions of impact:

● Evidence from Phase 1 (2003-10):

Evaluations of three pilots (in Kalomo, Kazungula and Chipata districts) found significant impact on household consumption, especially food consumption for poorer households (Tembo, Freeland, et al. 2014, Tembo, Chimai, et al. 2014).⁹⁰ Although a fourth Phase 1 pilot in Monze district had no impact on household consumption or health outcomes, it had significant impact on school enrolment, investments in productive assets and income diversification toward share cropping (Seidenfeld and Handa 2011).⁹¹

● Evidence from Phase 2 (2010-14):

Evaluations of the CGP and MCP also found significant impact on a range of outcomes, including increased household consumption, food security, asset ownership, savings (and reduced indebtedness), incomes and revenues, shifts in employment patterns and income sources, perceptions of subjective poverty, and children's material needs (Hjelm et al., 2017, Handa et al., 2018, Natali et al., 2016, Handa et al., 2016, Daidone et al., 2014, AIR 2016). For instance, CGP's average effect size on household monthly per capita expenditures was approximately 27 percent, while MCP's was approximately 30 percent (Handa et al., 2018). However, there is heterogeneity of impacts, particularly with

respect to schooling and nutrition, depending on the initial conditions of the household, suggesting the need for complementary interventions (Handa et al., 2018, Handa et al., 2016, Handa et al., 2015, Chakrabarti et al., 2020, Daidone et al., 2014). In the case of MCP, effect sizes increased over time, between two to three years of exposure to the program (Handa et al., 2018) and the overall impacts after three years of implementation outweighed the transfer size. One study estimates a multiplier effect of 1.68, i.e., each kwacha transferred provides an additional K0.68 or roughly 70 percent more in terms of net benefit to the household. These multiplier effects were driven largely by increased productive activities (AIR 2016).

138. In the absence of an impact evaluation of the Harmonized SCT, the potential impact of a fully funded SCT vis-à-vis the current underfunded program is simulated. Given data limitations, it

is difficult to simulate the impact of the SCT per se. Instead, the focus is on the potential impact of a fully funded version of the program vis-à-vis the current underfunded program. As examined above, SCT execution rate has averaged 54 percent between 2014 and 2018, dropping to a mere 15 percent in 2019. In this context, the effect on poverty of a fully funded SCT program, i.e., covering 614,479 households is simulated.⁹² We examine three scenarios:

- status quo SCT that pays its full caseload benefits;
- an enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2017 value of the transfer;
- a further enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2020 7NDP target of 15 percent of the poverty line.

90. In Kalomo, the increase in consumption accounted for 27-33 percent of beneficiary households' per capita consumption expenditure (Tembo, Freeland, et al. 2014). In Kazungula and Chipata, the impact on consumption expenditure accounted for 57-85 percent of the beneficiary households' per capita consumption levels, with impact in Kazungula more than one-and-a-half times as much as in Chipata district (Tembo, Chimai, et al. 2014).

91. In Monze, the program increased ownership of livestock, purchase of fertilizers and a shift from subsistence to more cash crops, but had no impact on food expenditures (this could be a limitation of the survey). The Monze pilot experimented with educational and health conditionalities and significantly increased school enrolment (by seven percentage points), with even larger impacts on school enrolment of younger children (by 20 percentage points). There were no significant impacts on access to health care, suggesting additional interventions were necessary (Seidenfeld and Handa 2011).

92. In 2018, 614,000 households paid monthly transfers of K90 per household; K180 for households qualifying on disability. Data for 2019 was not available.

139. As previously noted, these are simulations of hypothetical benefits, rather than an evaluation of impact that can be attributed to the program.

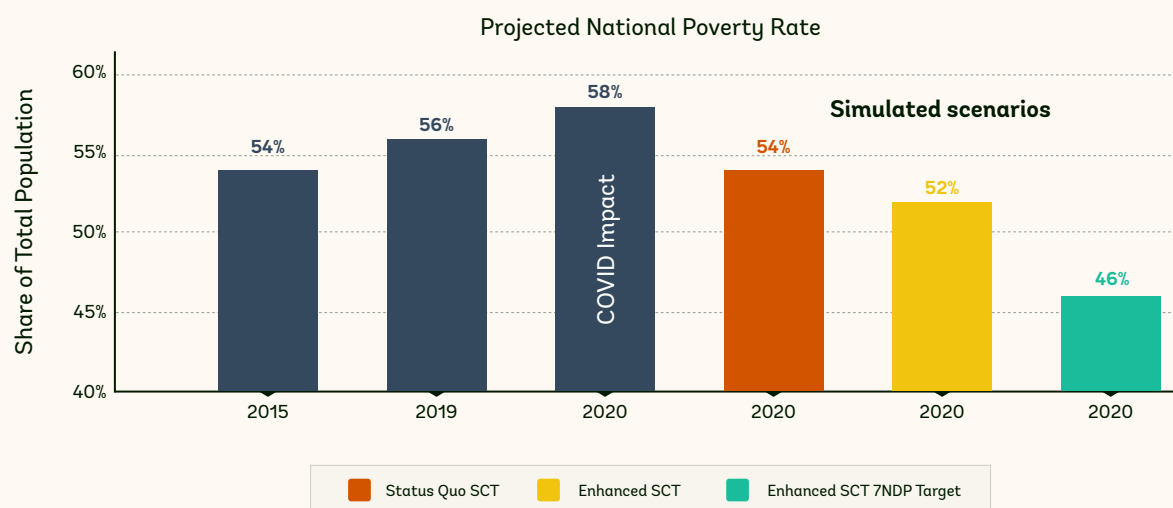
As such, the findings presented below need to be seen as indicative of the direction of impact, rather than definitive measures.⁹³

140. Our simulations suggest that a fully funded SCT can be expected to significantly reduce poverty incidence. Despite the increase in poverty due to COVID-19 and the erosion of the real value of the transfer, fully funding SCT can potentially reduce poverty incidence in the country. Extrapolating poverty incidence over time suggests poverty would have increased by 1.8 percentage points between 2019 and 2020, largely due to the COVID-19 crisis. However, if all those enrolled in SCT were paid benefits, this would bring down poverty by 3.7 percentage points. As a result, the overall poverty in 2020 is expected to be at the 2015 level (Figure 3.14, orange bar).⁹⁴ This implies that, in 2020, 0.7 million less people are expected to be in poverty if SCT pays benefits to its full caseload, compared to the case if only the current partial caseload is paid.

141. Going further, an enhanced SCT could potentially reduce poverty incidence below the 2015 level despite the surge due to COVID-19. An enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2017 value of the transfer, is expected to reduce poverty incidence by 6 percentage points (Figure 3.14, yellow bar).⁹⁵ Factoring for COVID-19-induced increase in poverty in 2020, this translates to a net poverty reduction of 4.2 percentage points.⁹⁶ Holding the transfer value constant at the 2017 level could, therefore, be immensely beneficial to the country's anti-poverty agenda. Further increasing the transfer value to the 7NDP target for 2020, i.e., 15 percent of the national poverty line, would have an even larger poverty impact (Figure 3.14, green bar). However, given the overall fiscal constraint, there are policy trade-offs with respect to increasing transfer amounts to existing beneficiaries versus coverage to ensure more people in need receive some form of support. As seen in the discussion of coverage, many poor households are not covered by the SCT.



Figure 3.14: Simulated Poverty Impact of fully funded SCT program



Source: Microsimulation exercise, based on MCDSS data on district-level caseload (2019), 2015 LCMS, and IMF sectoral GDP growth estimates.

⁹³. An alternative simulation exercise - MicroZAMOD - uses a tax-benefit microsimulation for Zambia and estimate poverty rates from 2015 to 2019. However, the methodology is not comparable (Nakamba-Kabaso et al. 2020).

⁹⁴. Looking at the disaggregated picture, this translates to rural poverty of 75.8 percent compared to 76.5 percent in 2015 whereas urban poverty is about the same at 23.3 percent.

⁹⁵. The amount is chosen such that the 2021 transfer value adjusted for inflation is equivalent to the 2017 transfer value.

⁹⁶. Under this scenario too, the effect on rural poverty is larger than that on urban poverty—rural poverty is about 4 percentage points below the 2015 level whereas urban poverty is 1 percent below the 2015 level.

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3.5.2. Keeping Girls in School (KGS)

142. The Keeping Girls in School (KGS) initiative aims to increase access to secondary education to adolescent girls. The program provides school fees (both day and boarding schools) for up to five years (i.e., the entire duration of secondary school).⁹⁷ KGS beneficiaries are selected from SCT households, as girls from poorer households are less likely to be enrolled in school. This program design enables the use of common delivery systems and enhances policy coherence, with SCT providing minimum consumption support and the bursary helping to break the inter-generational poverty cycle. However, this also has implications for the performance of KGS as it relies on SCT data whose vintage varies from 2014 to 2017, and which was not explicitly collected for the purpose of identifying KGS beneficiaries. This aspect of program design colors performance along several dimensions, as is noted below. This analysis of program performance is based on administrative data provided by MOGE. As there is no impact evaluation for the program, the assessment of program performance is based on an early assessment combined administrative and survey-based analysis (Friedson-Ridenour and Milapo 2020).

Coverage

143. KGS commenced in 2017, with the largest number of enrollments offers in the first year. A KGS enrollment offer indicates that an eligible girl successfully went through verification (i.e., exists in a community and belongs to a SCT household), and was issued an offer letter for bursary support. About 65 percent of all enrollment offers were made in 2017 in 16 districts (Figure 3.15). As KGS, by design,

provides its beneficiaries bursary support for the whole duration of their secondary education, this ensures that they have up to four years to complete their secondary schooling. The enrollment offers in 2018 were mostly a mop-up exercise undertaken by MOGE in the same districts to ensure that any potential beneficiaries left out in the 2017 enrollment were captured. There was a renewed surge in enrollment offers in 2019, with expansion to 11 additional districts. As of 2020, KGS is operational in 29 districts, covering over 28,000 adolescent girls.⁹⁸ The program aims to expand to 49 districts, covering 43,520 girls, by 2024.

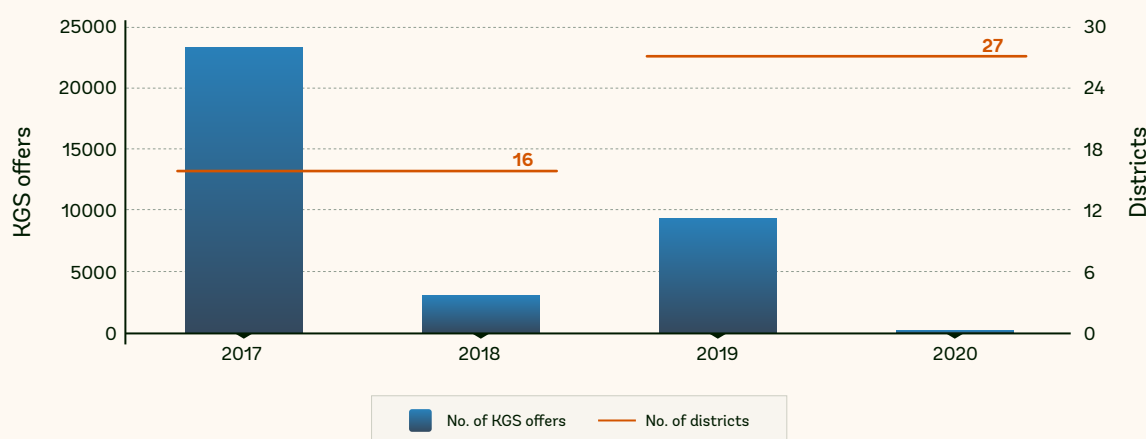
144. Among those offered KGS bursaries, take-up was, on average, about 80 percent during 2017-18, with substantial variation across locations and schooling status. KGS take-up indicates the share of potential beneficiaries (those that were offered KGS bursary support) that actually said ‘yes’ to the offer. or in other words, whose school fees was ever paid by KGS at any point in time. In 2017-18, there was considerable variation across the 16 KGS districts, ranging from a 71 percent take-up rate in Lukulu district to 98 percent in Chilubi district. More recent data suggests that take-up was, on average, about 60 percent between 2017-2019, with a continuous drop over the years (Figure 3.16). Other similar bursary programs such as those implemented by the Ministry of Community Development and Social Services, PWAS and SEEVCA have close to 90 percent and 100 percent take-up rates, as do a number of NGO bursaries. For the latter, this high take-up rate is attributed to their comprehensive bursary package, targeting methods and other implementation factors (Friedson-Ridenour and Milapo 2020).

⁹⁷ The following definitions are useful in understanding program design and implementation. (a) enrollment offer indicates that an eligible girl successfully went through verification (i.e., exists in a community and belongs to a SCT household), and was issued an offer letter for bursary support; (b) take-up rate is the share of potential beneficiaries (those that were offered KGS bursary support) that actually said ‘yes’ to the offer; and (c) school enrollment rate is the share of beneficiaries who took up the offer for bursary support and enrolled in school each year.

⁹⁸ Note: 2 districts are newly created break-away districts from the original 27 districts.



Figure 3.15: Gradual scale up of KGS coverage, 2017 to 2020



Note: Between (2017-18), KGS was implemented in 16 districts; program scaled up to 27 districts in 2019 and continues to operate in 27 districts in 2020 (2 of these districts split into 2 more districts).



Source: MOGE data

145. Among those offered KGS bursaries, take-up was, on average, about 80 percent during 2017-18, with substantial variation across locations and schooling status. KGS take-up indicates the share of potential beneficiaries (those that were offered KGS bursary support) that actually said ‘yes’ to the offer. or in other words, whose school fees was ever paid by KGS at any point in time. In 2017-18, there was considerable variation across the 16 KGS districts, ranging from a 71 percent take-up rate in Lukulu district to 98 percent in Chilubi district. More recent data suggests that take-up was, on average, about 60 percent between 2017-2019, with a continuous drop over the years (Figure 3.16). Other similar bursary programs such as those implemented by the Ministry of Community Development and Social Services, PWAS and SEEVCA have close to 90 percent and 100 percent take-up rates, as do a number of NGO bursaries. For the latter, this high take-up rate is attributed to their comprehensive bursary package, targeting methods and other implementation factors (Friedson-Ridenour and Milapo 2020).

146. Differences in take-up rates across groups emphasizes the need for more intensive support to cover those that have dropped out of school. In 2017-18, KGS take-up among those offered enrollment was about 88 percent among those that were already in-school, and only about 76 percent among those out-of-

school. Take-up in examination grades was lower than in other grades, at about 74 percent (Friedson-Ridenour and Milapo 2020). This emphasizes the need for greater resources to bring school dropouts back to school. There are two aspects to this issue:

- One, the program faces greater operational challenges in reaching out-of-school girls through community structures, rather than in-school girls through the schools. In the early years of the program, the majority of girls who did not take up the program reported that they did not receive offer letters and, as a result, did not know enough about the program. Enrollment offer letters were distributed to beneficiaries through schools for in-school girls and Community Welfare Assistance Committees (CWACs) for out-of-school girls; the latter were more challenging to deliver (Friedson-Ridenour and Milapo 2020).
- Two, social issues constrained enrollment and attendance. The assessment also found that 62 percent of girls who did not take up KGS were pregnant or had been pregnant; half of these girls became pregnant while still in school (Friedson-Ridenour and Milapo 2020). Though these issues go beyond the scope of the program, KGS has recently undertaken steps to address these factors. The program introduced a case management system to identify eligible out-of-school girls and enrolled girls at risk of dropping out of school, with a focus on the risks arising from GBV (see Annex 3G).

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147. Take-up of the KGS offer, however, doesn't necessarily imply enrollment or regular attendance. School enrollment indicates whether a beneficiary who took up the offer for bursary support enrolled in school each year. In 2017-18, among the beneficiaries that took up the offer, only 70 percent enrolled in school (Friedson-Ridenour and Milapo 2020). This was highest among beneficiaries aged 12-18 years (76 percent to 88 percent) and lowest for those above 20 years (57-60 percent). More recent data from MOGE suggests that enrollment rates dropped over time. In 2019, among the beneficiaries that took up the offer, only 50 percent enrolled in school, a 24-percentage point drop as compared to 2018.

148. Low enrollment and attendance are likely correlated with a range of factors, several of which are beyond the scope of the program to influence. These include physical proximity to school (with lower enrollment if the girl went to school outside her home district or did not enroll in boarding facilities), household characteristics (with lower enrollment if girls were household

heads and had other responsibilities), and if they were enrolled in grade 10. Greater efforts are needed to ensure that enrolled girls attend school regularly. This remains a challenge for some beneficiaries, especially for older girls and those in higher grades. In 2017-18, among those that took up the program, about 60 percent attended school during a given term (Friedson-Ridenour and Milapo 2020). It is possible that these contextual factors are linked to broader issues at the district-level. In fact, the administrative data suggest that districts with higher take-up have higher school enrollment as well as lower dropouts.

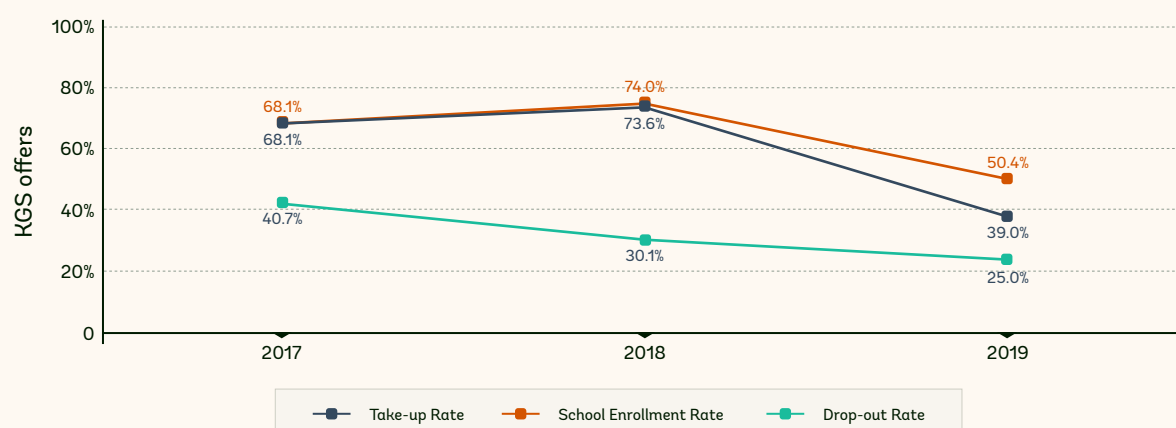
149. There is significant gap in coverage of needs.

While a large share of adolescent girls from SCT households are already covered by KGS in targeted districts, the need for such bursary programs are even larger among households not eligible for SCT but poor, and in other districts. A potential scale-up of the program is warranted to meet this gap in coverage.⁹⁹

99. It also worth noting that boys from poor households also fare poorly in secondary school attainment.



Figure 3.16: Trends in take-up, enrollment and drop-out rates, 2017-2019



Source: MOGE data

Targeting and Efficiency

150. Despite eligibility being linked to SCT program, on-ground implementation challenges exist with respect to targeting and beneficiary management. One estimate suggested that about 17 percent of KGS beneficiaries did not belong to SCT households in 2017-18 (Friedson-Ridenour and Milapo 2020). Obtained by fuzzy matching beneficiary records between the KGS information system and SCT database, it is likely that some of this seeming program leakage is actually a matching error. However, qualitative research for the report also highlights the existence of some inclusion errors (Friedson-Ridenour and Milapo 2020). Although SCT households are assessed to be among the poorest households, given the scale of need in the KGS districts (the poorest in the country), it is likely that KGS beneficiaries not belonging to SCT households are also in need of such support. These issues highlight both the need for scaling up coverage (once fiscally feasible) and addressing implementation issues in the program. In particular, there is a need to ensure receipt of up-to-date beneficiary lists from the SCT program and more efficient management of beneficiary data by the KGS program. Ideally, the KGS beneficiary IDs should be linked to SCT household IDs when the program creates a potential beneficiary list at headquarters for verification in districts. In

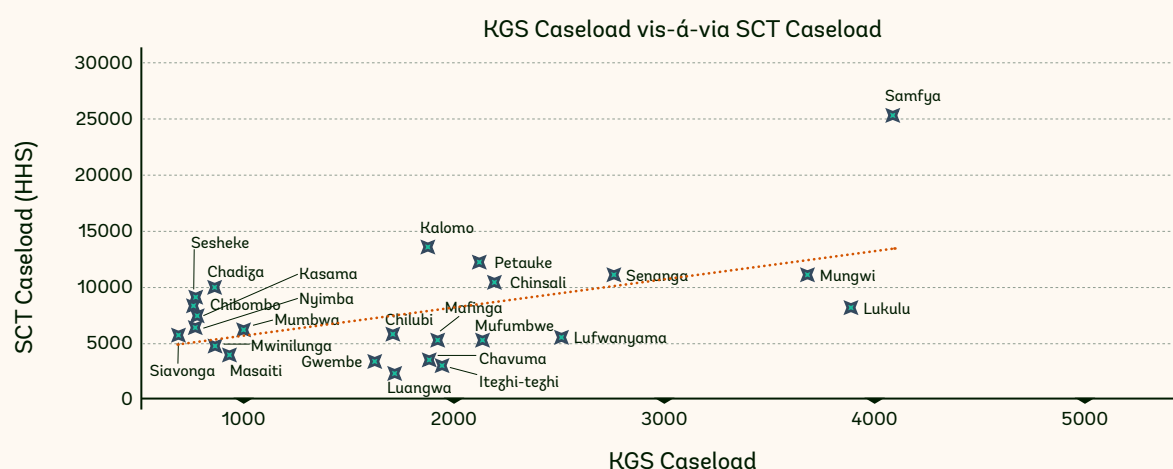
addition, the process of capturing basic information relevant for KGS at the time of SCT enrollment can be made more systematic.

151. Nevertheless, KGS offers are largely poverty targeted by virtue of their geographic targeting. The number of KGS offers are higher in districts where there is a higher caseload of SCT beneficiaries (Figure 3.17). Since SCT caseload itself is higher in districts with a higher number of poor, it can be inferred that the targeting effectiveness of the KGS program is like that of the SCT program (Figure 3.10).

152. Turning to the profile of KGS beneficiaries, enrollment offers are disproportionately skewed toward examination grades 9 and 12. During 2017-20, about 48 percent and 32 percent of all enrollment offers were for grade 9 and grade 12 respectively. This is probably a deliberate emphasis by the program, to counter low retention rates (55 percent and 65 percent) in these grades. However, this implies that most KGS beneficiaries, who may be educationally weaker than others in these grades, have only about a year to prepare for their grade 9 or grade 12 examinations. The schooling system, therefore, needs to cater to the additional learning needs of KGS beneficiaries if they are to be successful.



Figure 3.17: KGS offers are concentrated in districts with a larger SCT caseload (i.e., poorer districts)



Source: MOGE data on KGS caseload; MCDSS data on SCT caseloads.

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153. Older beneficiaries constitute about half of all beneficiaries offered enrollment; addressing learning needs becomes even more crucial for this group. Fifty-two percent of those given enrollment offers are aged 20+ years, whereas about 47 percent are aged 15-19 years. This could pose a significant issue as most beneficiaries may have dropped out of school for more than two years or been repeating grades for a significant number of years. Without addressing the significant learning challenges faced by these beneficiaries, the program is likely to encounter muted impacts on learning and future earnings. As part of ongoing efforts to coordinate with other educational projects and investments (such as the Zambia Education Enhancement Project), KGS could assess learning needs of its beneficiaries and jointly develop appropriate interventions.

Adequacy

154. The program covers school fees; however, nonschool fees remain an important barrier to attending secondary school, at least for some girls. A study of 16 Sub-Saharan Africa countries shows that households contribute between 44-49 percent of the cost of attending secondary schools. Hence, a reduction or even elimination of school fees does not necessarily lead to improved enrollment, as evidenced in Ghana, Kenya, Rwanda and Tanzania (Zubairi and Rose 2019). In Zambia, an analysis of MOGE's Education Management Information System (EMIS) shows that, as of 2017, early pregnancy (47 percent), marriage (13 percent), and economic (18 percent) were the biggest reported reasons for adolescent girls' dropout. For those citing economic reasons, nonschool costs present a challenge. Even with fees paid, families must cover the additional cost of schooling (such as uniforms, shoes, and supplies). Given the low coverage of boarding schools in rural areas, many girls attend day school, resulting in additional costs of food and transport and even rent if schools are far from home.¹⁰⁰ While KGS anticipated that SCT transfers would be used to cover some of these expenses, irregular payments of SCT benefits present a challenge.

155. Consequently, an education lump sum grant is currently being introduced for KGS beneficiaries in SCT households. This additional support to cover one-time schooling costs incurred at the start of the school is expected to increase take-up and retention. The amount is equivalent to 14 percent of annual SCT transfer amount per adolescent girl per year (currently K252). This additional benefit will be co-located with the Zambia Education Enhancement Project (ZEEP) to ensure coordinated provision of services to these girls. The ZEEP project finances school infrastructure and materials to enhance the quality of learning to those enrolled in school, which could consequently improve retention, attendance and success rate.

156. Together, KGS benefits constitute a relatively large share of household consumption. The total benefit amount per beneficiary is about K2430 per year in 2019, including the education grant, and school and boarding facility fees. Focusing on the immediate aim of the program to meet education needs, the transfer amounts to about 2.2 times the education expenditure of SCT households.¹⁰¹ Taken together with the SCT benefit, this amounts to 36 percent of the average SCT household consumption.

Impact and Effectiveness

157. Evidence from similar programs shows that bursary programs¹⁰² have an impact on human capital outcomes, especially educational attainment. Duflo et al., 2019, evaluated a bursary program in Ghana and found that secondary school completion was 26 percentage points higher among those that were randomly assigned to receive the program, they obtained 1.26 more years of secondary education, and had higher test scores. Women that received this program, by the age of 25 years, had fewer children, a lower likelihood of ever being pregnant and having an unwanted pregnancy, and a higher likelihood of being enrolled in tertiary education. Kremer et al. 2009 evaluated a similar but merit-based scholarship for girls in two districts of Kenya and found similar results. Global evidence on

100. Besides increasing cost, weekly boarding facilities, unless properly managed, can also exacerbate girls' risk of sexual abuse and harassment.

101. For comparability with the SCT transfer, the KGS benefit is equivalent to 22 percent of average 2019 estimated SCT household consumption.

102. Also referred to as stipend or scholarship (needs-based) programs.

bursary and stipend programs, and cash transfers more generally, suggests consistent, significant, and often substantial positive impacts on school enrollment, attendance, completion, and retention. Impact on learning is more mixed.¹⁰³ Across a number of African countries, safety nets (cash and in-kind transfers) have been found to increase school enrollment and attendance by 7 percent and 6 percent respectively, on average (Ralston et al., 2017). These studies also point to the importance of targeting specific groups, especially vulnerable children and the poorest households (Ralston et al., 2017).¹⁰⁴

158. This is, in turn, links to an improved stream of future earnings, and further human capital accumulation for the next generation. Globally, there is evidence of positive returns to additional years of schooling. For Zambia, the most recent estimates show that the returns to an additional year of schooling is 15 percent—higher for women at 16.7 percent compared to men at 13 percent (Mphuka and Simumba 2012). These returns are substantial—for example, KGS costs about K

2,162 for a year of schooling for one beneficiary, excluding the education lumpsum grant. At this estimated rate of return, this translates to between 4-4.5 years to recover such an investment (through increased earnings to the beneficiary), assuming a beneficiary attends only one year of school.

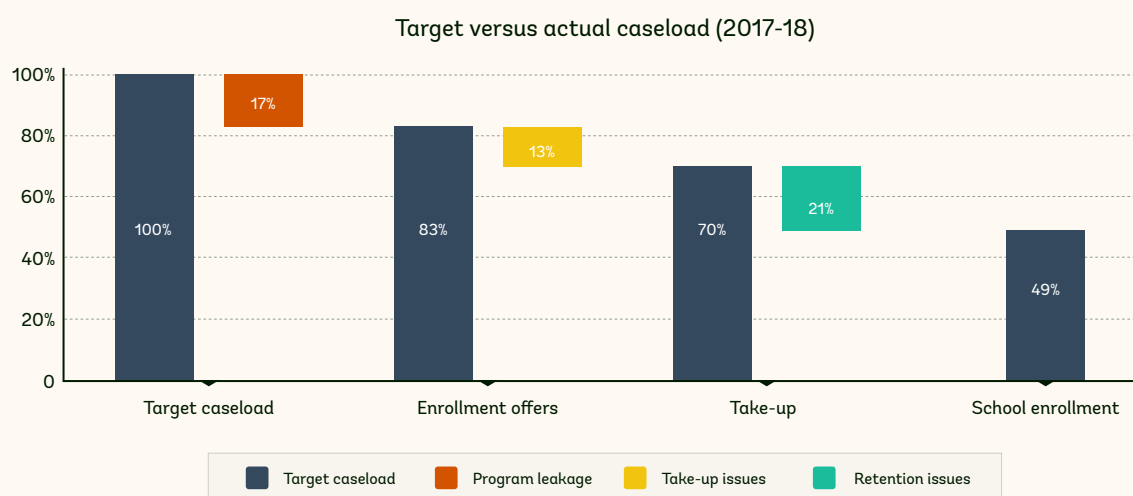
159. An early program assessment of KGS found that beneficiaries consider the support valuable in continuing or returning to school. For most beneficiaries, the fee waiver reduced financial barriers to school enrolment and attendance. Beneficiaries also reported that being able to go back to school helped them feel a renewed sense of hope for the future (Friedson-Ridenour and Milapo 2020).

160. The program could have widespread impact if it is able to address inefficiencies arising from implementation challenges as well as contextual realities. Figure 3.18 estimates the gap between target caseload and actual caseload as a way to quantify some of the inefficiencies facing the

- 103.** See, for example, Davis et al. (2016), Handa et al. (2017), Baird et al. (2014), Bastagli et al. (2016), García and Saavedra (2017), Petrosino et al. (2014), Snilstveit et al. (2016) for reviews of cash transfers, including bursary and stipend programs. In several Asian countries, need-based stipends are commonly deployed safety nets. These programs have increased enrollment, attendance, and attainment, and reduced school dropouts and child labor, e.g., in Bangladesh, Cambodia, Indonesia, Myanmar, and Pakistan. Stipends have also helped protect education investments in Indonesia after the 1998/99 crisis. Gender-targeted stipends have successfully incentivized enrollment of adolescent girls, e.g., in Bangladesh and Pakistan (O’Keefe et al. forthcoming).
- 104.** Targeting girls from the poorest households is itself considered a better approach than not doing so as currently it is the rich that primarily benefit from public expenditure on secondary education (expenditure on the richest 10 percent is 9.6 times the expenditure on the poorest 10 percent in Zambia) (Zubairi and Rose 2019).



Figure 3.18: Only about half of those intended to benefit from KGS actually benefit from it



Source: Staff estimates based on the program assessment in Friedson-Ridenour and Milapo (2020).

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program. It shows that about half the target caseload, despite going through the verification process and being offered a place on the program, ends up not benefiting from the program. Lack of retention is the single biggest issue on the program. As highlighted earlier, this could be due to resource constraints, monetary or time, faced by beneficiaries or because the skills/ learning gains are perceived to be so minimal that they don't see the value of being in school. Issues with take-up, as highlighted earlier, also leads

to inefficiencies in the program. Beyond these largely contextual issues, a part of the inefficiency also arises from issues with implementation (e.g., data management issues, community sensitization, delay in disbursement of KGS funds). Reducing these inefficiencies will require further engagement with the context,¹⁰⁵ particularly, through a beneficiary-centered approach (e.g. coordination with related programs to co-locate program inputs to specific schools and geographic clusters) and improved monitoring and evaluation (M&E) to inform and improve program performance.

3.5.3. Home-Grown School Meals (HGSM)

161. The government had originally planned to scale up the HGSM program by nearly doubling coverage by 2020. The program provides one hot meal per day to every child enrolled in preprimary and primary schools, throughout the school year. In 2016, the program covered 977,000 beneficiaries in 2,591 schools (out of more than 8,800 schools in those specific districts), accounting for approximately 25 percent of all children enrolled in primary and pre-primary schools (both public and community schools). As of 2019, the program covered approximately 1,125,692 learners in over 2800 schools in 38 districts (out of 117 districts) in all 10 provinces of Zambia. Plans to scale up the program to 2 million learners by 2020 have not yet materialized. The funding gap was estimated to be about 70 percent of the estimated resource requirement (given stated program targets) for the period 2016-19. However, in 2019 alone, the funding gap was as high as 91 percent, reflecting substantial underfunding. Given current funding constraints, a phased scaling up over a period of 5-10 years may be more realistic, as proposed by MOGE's HGSM financing framework (MOGE 2020b).

162. The HGSM has dual objectives: social assistance through school meal provision, and livelihood support through procurement from smallholder farmers. As defined in the HGSM Strategy, the primary strategic objective

of the program is to improve human capital outcomes. Specifically, the program aims to increase school enrollment, attendance, retention and progression of learners as well as increase awareness, production and consumption of nutritious, diverse and safe food. These objectives are intended to be achieved through the provision of school meals. The other strategic objective is to promote market participation of smallholder farmers through the procurement of their produce for school meals (MOGE 2020c). These two objectives may result in competing incentives at the household-level, resulting in amplified or muted overall impact, depending on the context (FAO 2020). As a result, this program design raises interesting questions on policy coordination between social assistance and jobs and economic inclusion interventions (see also Chapter 4 on Jobs and Economic Inclusion).

163. Recent evidence on HGSM highlights immense potential to improve human capital outcomes as the provision of school meals has a positive impact on schooling, nutrition, and food security. The provision of meals meets the program objectives of improving food security, children's and women's diet diversity, and schooling outcomes. School meals improve education outcomes, in terms of increase in attendance, reduction in dropout rates, and improvements in literacy and grade

¹⁰⁵ Some of the common reasons cited for low take-up, retention and attendance (not included in the analysis here) are the lack of a broader conducive environment for secondary schooling, e.g., safety concerns in traveling long distances and from school-related GBV, early pregnancy and marriage. Tackling these issues, though, will only take more resources and greater coordination with other programs and service providers to ensure that KGS beneficiaries are able to overcome the multitude of obstacles that they face.

progression. For example, provision of school meals increased attendance rates by 5.4 percent among primary school students and 14.3 percent among secondary school students. Providing school meals improves children's dietary diversity score by 60 percent. Possibly through spillover effects to other household members, school meals also improve the diet diversity scores for women and food security (Prifti and Grinspun 2019). Simulations of this impact at scale, assuming universal school feeding in rural areas, suggests school meals would increase primary school-aged children's school attendance by 4.7 percentage points relative to no school meals (FAO 2020).

164. However, the impact of the overall program, i.e., both the school meals and market access components, on human capital outcomes is limited. While the school meals are expected to have a direct impact on human capital outcomes, the market access component is expected to have indirect effects through changes in the household income.¹⁰⁶ While the market access component meets its objective of increasing pulse production and revenues from this crop, this appears to have induced a reallocation of resources within the farm economy with a number of unintended consequences. In fact, the impact of both components taken together worsens food security and dietary diversity for children and women.¹⁰⁷ There is also no overall impact of the program on schooling outcomes, despite reducing young children's involvement in work and chores (Prifti and Grinspun 2019).

165. The constrained impact of the composite program could be a reflection of the inefficiencies in the local farm economy as well as operational constraints. While many farmers are subsistence farmers, even those that produce for the market are not necessarily linked to the program, possibly due to the current centralized procurement model.

The program needs to address supply-side constraints with respect to low quality of farmer produce (combined with low capacity for quality assurance of food commodities procured), weak aggregation in the co-operatives, and lack of appropriate post-harvest handling storage and equipment (amplified by delays in procurement by the program). All these constraints have prompted farmers to sell to alternative buyers, often at lower prices than those offered by the program, leading to lower impact and competing incentives between the market access and meal provision objectives of the program. In particular, the program needs to further decentralize procurement systems and strengthen links with smallholder farmers. This would help counteract the unintended negative impacts and inject resources into local economies. Greater coordination with livelihood interventions, such as agricultural extension services and agricultural jobs and inclusion programs (such as FISP and the Food Security Pack; see Chapter 4 on Jobs and Economic Inclusion), would also help address these challenges (FAO 2020, MOGE 2020b).

166. Given the potential of the program, it is critical to address these operational challenges that constrain its impact. School feeding is a core element in the 10-year Continental Education Strategy for Africa 2016-2025. In Zambia, a cost-benefit analysis undertaken prior to the program's transition from donor to government financing suggested that the benefits far outweighed the costs. The study estimated that the total cost to feed one child for seven years of preprimary and primary school was approx. US\$104.05; estimated benefits were approximately US\$717.63 (MOGE 2020a, b).¹⁰⁸ GRZ aims to address several of the constraints highlighted above through the National Strategy on Home School Meals (2020-2024).

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106. Note that the evaluation investigates this overall program impact for the sub-sample of households that benefit from the procurement of their produce. Though not all these households send their children to schools covered by the school meals program, they do not differ significantly from households that do send their children to schools (Prifti and Grinspun 2019).

107. This is largely a function of reduced overall income (and subsequent reduction in food expenditure) and reduced consumption of own-produced maize and livestock (while increasing the consumption of own-produced beans) (Prifti and Grinspun 2019, FAO 2020).

108. In the study, benefits are defined as value added of school meals in the country's GDP and based on assumptions about impact on education and productivity, among other things. Costs are actual costs incurred, with staff and commodity costs being the primary drivers.

3.6.

RECOMMENDATIONS: MOVING TOWARDS A MORE EFFICIENT AND EFFECTIVE SYSTEM

167. In conclusion, Zambia has shown foresight in establishing a broad-reaching and comprehensive social assistance sector.

Since 2014, there has been a robust policy foundation, with both sectoral and national policies emphasizing the need to scale up social assistance. Despite this progress, however, the current scale and performance of the social assistance system does not adequately reflect Zambia's needs. Though the government has shown intention to scale up social assistance, the sector is plagued by persistent underfunding and there is a substantial financing gap for most social assistance programs. There are also several implementation inefficiencies. Though these are typically a result of contextual factors, inadequate monitoring and evaluation limits the extent to which programs can course-correct and improve program performance. The analysis suggests that, if fully funded and if operational challenges are addressed, these programs have the potential to significantly reduce poverty and improve human capital outcomes.

168. The primary recommendation of this chapter is to gradually expand the social assistance sector, in line with policy commitments and given the scale of poverty and vulnerability.

This would be consistent with the recent regional and global shift in social assistance programming, with substantial expansion in the last five to ten years. In particular, the COVID-19 crisis has starkly highlighted the need for greater coverage of social assistance programs that provide adequate benefits. The NSPP highlights the importance of expanding existing social assistance programs to national scale and ensuring sustainable financing to do so. In particular, it refers to the need for “exploring fiscal space available for social protection and identifying alternative resource mobilization strategies” (MCDMCH 2014).

169. In light of the challenging macro-fiscal environment, a phased approach to making the social assistance sector more efficient and effective is proposed, as outlined below.

In the short term

170. Close the gap between allocations and spending for current programs. Ensuring sustainable allocations and releases by the government needs to be a critical first priority. However, as fiscal space continues to shrink, allocation and releases to social assistance will not be guaranteed in the coming years, despite the negative impact of COVID-19. As a result, in the short term, development partners will continue to step in to finance the significant shortfalls. Over the medium-term, once the current caseload is stabilized, a related priority will be to explore the possibility of the government and development partners jointly financing a scale up to address the gaps identified in this chapter.

171. In this context, the cost to do so is estimated using the SCT as the flagship social assistance program to illustrate. Table 3.1 presents these estimates for the three poverty impact simulation scenarios (in Section 3), as follows:

- The first scenario estimates that it would cost approximately K973 million (US\$48.6 million) per annum to ensure all enrolled beneficiaries are paid every year. This status quo SCT assumes the existing caseload and current benefit value.
- The second scenario estimates that an enhanced SCT would cost approximately K1,622 million (US\$81.1 million) per annum. This enhanced SCT assumes the current caseload receiving the higher benefit

level to factor inflation.¹⁰⁹ While the enhanced SCT costs about double the status quo SCT, it also has a slightly greater impact on poverty, reducing the headcount ratio by 0.05 percentage points per US\$ million compared to 0.04 percentage points per US\$ million respectively. This translates to about 3,400 more people lifted out of poverty per US\$ million spent. As the enhanced scenario covers all those enrolled and as the real value of the transfer is higher, it provides a longer-term sustainable impact on poverty compared to the status-quo.

- The third scenario estimates the cost of an SCT that meets 7NDP targets. This scenario assumes the full caseload as in the second scenario but sets the transfer amount substantially higher, equivalent to the 2020 7NDP target of 15 percent of the poverty line. While this scenario results in the largest impact on poverty (with poverty falling

by nearly 10 percentage points), it comes at a substantially higher cost (approx. K 2,551 million or US\$ 127.6 million per annum). As a result, the reduction in the headcount ratio is 0.07 percentage points per US\$ million compared to 0.05 percentage points for the second scenario.

172. Strengthen the design and delivery of current programs. Addressing the implementation challenges identified in this chapter would also result in a more efficient and effective system, as outlined in Table 3.2 for SCT and KGS. This would include measures to make systems for beneficiary selection more accurate, dynamic and transparent; increase coverage to all those eligible and ensure all those covered are paid their benefits (SCT) or are enrolled in schools (KGS); and regularly review the adequacy of benefits provided.



Table 3.1: Estimated budget for SCT under alternative scenarios

ESTIMATES FOR:	STATUS QUO	ENHANCED	7NDP 2020
Regular beneficiaries	554,817	554,817	554,817
HHs headed by persons with disabilities beneficiaries (10% of beneficiaries)	61,646	61,646	61,646
Transfer amount regular (K)	90	150	236
Transfer amount for HHs headed by persons with disabilities (K)	180	300	472
No. of transfers (per annum)	12	12	12
Administrative cost	17%	17%	17%
Total (K million)	856	1,428	2,246
Total Amount (US\$ million) (1 US\$ = 20 K)	42.8	71.4	112.3
Total Cost - Share of GDP (2020)	0.25%	0.42%	0.66%
Poverty impact (% point decrease)	1.9	4.2	9.9
Impact (% point decrease) per US\$ million	0.04	0.05	0.08



Note: Three scenarios were simulated: (a) status quo SCT that pays its full caseload benefits; (b) an enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2017 value of the transfer; and (c) a further enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2020 7NDP target of 15 percent of the poverty line. Administrative cost is approximated using benchmarks from current program cost.

Source: Staff Estimates based on MCDSS caseload data and 2015 LCMS.

109. The transfer amount has been chosen such that the 2021 transfer value adjusted for inflation is equivalent to the 2014 transfer value.


Table 3.2: Recommendations to strengthen the design and delivery of current programs

CHALLENGES	POTENTIAL ACTIONS	
PROGRAMS	SCT	KGS
Beneficiary selection and management: Exclusion and leakage	<p>Update the PMT to increase accuracy (once new household survey data is available).</p> <p>Ensure the SCT database is kept dynamic, through:</p> <ul style="list-style-type: none"> periodic updates as per a planned schedule. review if information relevant for other users of database can be captured during updates (KGS, SWL, etc.). <p>Ensure use of a unique ID for SCT households (and individual members that may benefit from other programs (e.g., KGS) and</p> <p>Develop effective coordination and information-exchange protocols between the SCT database and other programs.</p>	<p>Create more effective coordination and information-exchange protocols between SCT and KGS by:</p> <ul style="list-style-type: none"> establishing information-sharing protocols to link the databases of SCT and KGS (mapping of KGS beneficiary ID to SCT household IDs, process for capturing basic information relevant for KGS at the time of SCT enrollment); ensuring that the unique ID for KGS beneficiaries (that maps to the household ID in the SCT database) is used all the way to the community and school and undertaking verification checks immediately after registration to ensure that every KGS beneficiary is from a SCT household; providing case management support for safety and learning, through building linkages to other programs (e.g., ZEEP) to address school-level challenges (e.g., security in residential schools) and learning needs, especially of older KGS beneficiaries; and providing psychosocial support directly or through referral pathways to work with out-of-school girls and enrolled girls at risk of dropping out of school, with a focus on the risks arising from GBV.
Coverage	<p>Ensure the planned caseload is sufficient to cover intended beneficiaries, i.e., categorically eligible and poor households, in all provinces.</p>	<p>Implement communication and behavioral interventions to shift aspirations and social norms (especially among those that have dropped out of school), such as:</p> <ul style="list-style-type: none"> sensitization sessions with communities and with parents or guardians using former KGS beneficiaries as role models, possibly through orientation sessions at the start of the school year; and more effective communication directly to out-of-school girls through community structures.
Adequacy	<p>Review the adequacy of the transfer, adjusting the amount annually with the annual inflation, and/or gradually increase transfer amounts based on 7NDP targets.</p>	<p>Review the adequacy of the regular and lump sum education benefit and ensure timing is appropriate with respect to the start of the school year.</p>

In the medium-term

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173. Continue to expand in the medium-term.

Further expansion is warranted to meet the Government's targets for the social assistance sector. With almost 60 percent of Zambia's population expected to be poor by 2020, there is a need for large fiscal outlays if Zambia is to meet the persistence and scale of poverty. In fact, the 7NDP sets a target of increasing social assistance coverage. The SCT need not necessarily be the vehicle for this expansion. No one program can meet all social assistance requirements. Not all poor households meet the categorical eligibility criteria of the SCT. As such, addressing these gaps may require a review of the social assistance sector as a whole. However, this expansion is more appropriate in the medium-term, after resolving the issues of underfunding and stabilizing the current caseload.

174. Move toward shock-responsive programming and a cash plus approach.

Over time, the social assistance sector needs to adopt this approach, as advocated by the IFBSPP. Strengthening the existing programs, within a coherent policy framework and coordinated delivery systems, would allow the government to leverage the social assistance system to achieve broader development goals of human capital acquisition, economic inclusion, and resilience.

175. Shock-responsive programming is critical in Zambia's context of recurring climatic shocks, with the ongoing COVID-19 crisis sharply highlighting this urgency.

Globally and in Africa, there is a growing emphasis on adaptive social protection (with scalable program financing, design, and delivery systems) to cope with crises (such as economic, pandemic, and climate change).¹¹⁰ In Zambia's context, this refers to efforts to better leverage and streamline humanitarian efforts, as well as ongoing efforts to strengthen the building blocks of the emerging social assistance system

in the country, including programs, delivery systems, and financing. In recent years, the UN has supported the MCDSS in expanding the SCT program with short-term Emergency Cash Transfers to mitigate the adverse impact of droughts and COVID-19 (see Box 7). This experience provides useful insights on how to make social assistance more shock-responsive, both in terms of increasing the adequacy of support to existing beneficiaries and expanding coverage to cover those affected by the shock.¹¹¹

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176. The cash plus approach can be used to complement protective programs with interventions that promote human capital acquisition and sustainable livelihoods.

Since 2017, Zambia has been exploring the potential of complementing the SCT with livelihood interventions. The need for livelihood rehabilitation and recovery has acquired greater urgency during the ongoing COVID-19 crisis. Lessons from Zambia and the regional experience would yield important insights in moving in this direction (see Chapter 4 on Jobs and Economic Inclusion).

177. Leverage complementarities across sectors.

For instance, effective disaster response calls for close coordination between social assistance, climate change, and disaster risk management agencies of the government as well as humanitarian actors, development partners, and public and private service providers. Similarly, cash plus approaches require coordination across social assistance and jobs and economic inclusion sectors to supplement social assistance benefits with some combination of skills training, asset transfers, business grants, access to finance, and coaching, as relevant to the local context. Leveraging these complementarities will require greater policy coherence, in terms of design, financing and delivery.

110. Adaptive social protection is also referred to as "shock responsive", "disaster responsive" and "scalable" social protection.

111. Shock-responsiveness refers to two dimensions: (a) vertical expansion, i.e., (temporary) higher benefit levels to existing social assistance beneficiaries for the duration of the crisis; and (b) horizontal expansion, i.e., increased coverage to those most affected by the crisis (in the case of droughts, this will likely overlap with poverty profile, but in the case of COVID-19, higher impact on urban, nonpoor) (Bowen et al. 2020).



BOX 7: Scaling up SCT in response to shocks

In 2019, 92,202 SCT households in 23 drought-affected districts were provided temporary benefits to mitigate the adverse impact of drought. In July 2020, as part of the Government's COVID-19 response plan, the GRZ launched the COVID-19 Emergency Cash Transfer (C-ECT) program through the MCDSS and MOLESS, with technical support from UNICEF, ILO, UNDP, WFP, Plan International, ChildFund and the Zambia Red Cross Society.

The C-ECT aims to reduce the negative social and economic impacts of COVID-19 on poor and vulnerable households. It provides K 400 per month for a period of six months, with payments to be made bi-monthly (K 800) or trimonthly (K 1,200), or as a one-off payment (K 24,000), depending on the district. As of February 2021, the C-ECT had covered 204,000 vulnerable households in 22 districts (Chilanga, Chililabombwe, Chingola, Chipata, Chirundu, Chisamba, Kabwe, Kafue, Kalulushi, Kasama, Kazungula, Kitwe, Livingstone, Luangwa, Lusaka, Mansa, Mongu, Mpika, Mufulira, Nakonde, Ndola, Solwezi).

The C-ECT is designed to complement the SCT program by introducing the following shock-responsive dimensions:

Vertical expansion: The program provides (temporary) higher benefit levels to existing SCT households in recognition that the current SCT transfer levels are inadequate support

for chronically poor households during this emergency; and

Horizontal expansion: The program increases coverage to those most affected by the crisis, such as informal workers, orphans and vulnerable children, and other high-risk groups related to disability, chronic illness, and gender.

The C-ECT also explicitly aligns with other emergency responses, so that beneficiaries are linked to other relevant services, such as information on health and COVID-19, support to personal hygiene, information on nutrition, support to protection from violence and abuse and support to the disability-specific needs during the emergency.

Though it is too early to evaluate impact, early monitoring reports indicate successful disbursement despite some delays and disruption due to COVID-19 restrictions, floods in some districts, and operational challenges in others. As of 01 April 2021, 70,378 existing SCT households had been paid additional benefits, with some variation across districts. The high value of the transfer means that it is highly valued and there is pressure from non-SCT households to be included, warranting horizontal expansion of the program to those affected by the crisis. As a result, enumeration for horizontal expansion to new poor is ongoing in five districts, jointly by DPs and government.



Source: UNICEF (2021, 2020), United Nations Zambia (2020, 2021), UNICEF (2021b).

A LIST OF PROGRAMS

PROGRAM NAME	Social Cash Transfer	Public Welfare Assistance Scheme	Home-Grown School Meals	Keeping Girls in School	Orphans and Vulnerable Children Bursaries and Scholarships
START YEAR	2003	1964	2003	2016	1990s
INSTITUTION(S)	Ministry of Community Development and Social Services	Ministry of Community Development and Social Services	Ministry of General Education, World Food Programme	Ministry of General Education	Ministry of General Education
TARGET POPULATION	Destitute and incapacitated households	Extremely poor older persons, orphans or neglected children, chronically ill or persons with disabilities persons, female single headed households.	All pre- and primary school children in 39 target districts	Secondary school eligible girls	
BENEFIT TYPE	Cash transfers	In-kind social, education and health care support.	Meals at school	School and boarding fees	
BENEFIT LEVEL (KWACHA)	Regular Beneficiary HHs: 90 HHs headed by persons with disabilities: 180	N.A.	N.A.	319	
BUDGET ALLOCATION (MILLION KWACHA-2018)	721	16	39	75	Budget not provisioned in 2018
ACTUAL EXPENDITURE (MILLION KWACHA-2018)	399	0.24	27	N.A.	N.A.
NUMBER OF BENEFICIARIES	Household 616,464	-	-	-	-
	Individual 3,082,320	N.A.	977,000	28,745	N.A.



Source: Staff research based on program documents available on line ministries' websites and administrative data shared by MCDSS and MOGE.

EVOLUTION OF THE HARMONIZED SOCIAL CASH TRANSFER (SCT)

Phase 1 (2003-2010): In 2003, a pilot social cash transfer was introduced in Kalomo district. Promising performance reports led to an official launch in 2004 by the Ministry of Community Development and Social Services (MCDSS) and its inclusion in the 2005 Social Protection Strategy. By 2008, four more pilots were introduced in Kazungula (2005), Katete (2006), Chipata (2006) and Monze (2007). Though all five pilots aimed to cover the poorest 10 percent of the population of the districts served, there were variations in the program (especially with respect to targeting methods) that were tested to draw lessons for scale up. These pilot schemes received financial and technical support from a number of DPs, such as GIZ, DFID, CARE International, Irish Aid and UNICEF. By early 2010, social cash transfers were implemented in eight districts and reached about 24,000 households.

Phase 2 (2010-2014): In 2010, the government decided to scale up the program from 5 to 15 districts over a period of 7 years. The scaled up program was to be jointly financed by government and DPs, as per a memorandum of understanding (MOU) and a joint financing agreement. The program had two variants: a Child Grant Program (CGP) and Multiple Category Transfer Program (MCP), both of which provided a flat unconditional cash transfer of K 70 (approximately \$12) per month paid every two months (the amount was deemed sufficient to purchase one meal a day for

everyone in the household for one month). The schemes aimed to reach about 50 percent of the households in each district. By 2013, the program covered 61,000 households in 19 districts, with four different targeting models (labor-constrained, old age, child grant, and multiple category). A number of evaluations showed that the schemes had significant impact.

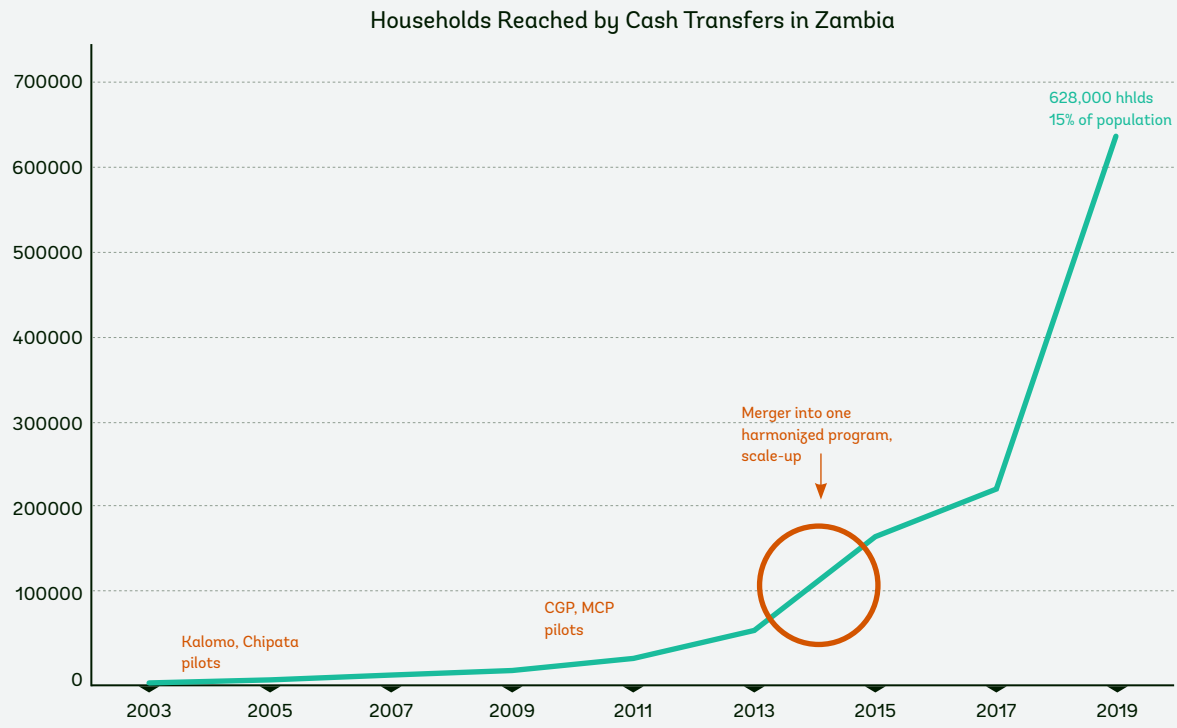
Phase 2 (2014-to date): In 2014, given the demonstrated impact of the schemes, the government consolidated these grants into a single program—the Harmonized Social Cash Transfer—with a common eligibility criteria, i.e., vulnerable households (defined as those that include persons with a disability, the older persons (those above the age of 65 years), the chronically ill in palliative care, households headed by females with three or more children, and child-headed households). With an eight-fold increase in the government budget allocation (from approximately USD3.5 million to USD30 million), the SCT was scaled-up from 19 to 50 districts, reaching national coverage by 2017. Households that meet the vulnerability criteria receive a flat monthly grant of K 90 (approximately US\$9) per household, while households with persons with disabilities receive bi-monthly grants of K 180 (approximately US\$18). By 2019, the program covered around 630,000 households (representing 18 percent of the population).



Sources: Tembo, Freeland, et al. 2014, Handa et al. 2018, Nalishebo and Muleya 2018, Michelo 2015, Costa, Gyoeri, and Soares 2015, Arruda and Dubois 2018, Kampamba et al. 2019.

**Figure 3B.1:** Evolution of social cash transfers in Zambia

GRZ budget contribution went from US\$5m to US\$35m in 2014, US\$45m in 2015 and US\$66m in 2018.



Source: Handa et al. 2020.

DATA SOURCES AND METHODOLOGY

Data sources

The following data sources were used for the analysis in this paper:

- Zambia Living Conditions Measurement Survey 2015
- IMF Real Sectoral GDP Estimates from 2015 to 2019 and forecasts for 2020 for Zambia
- Inflation figures for Zambia from IMF WEO
- UN Population prospects for Zambia to estimate population level in 2019 and 2020
- WDI Indicators - Total GDP for Zambia from 2014 to 2019
- ASPIRE Database (For cross-country comparisons)
- Zambia MOF Annual Budget Reports from 2014 to 2019
- Zambia MCDSS Overall Caseload for SCT (administrative data) from 2011 to 2020 and disaggregated district level caseload for 2019/2020
- Zambia MOGE Overall caseload and disaggregated data (age, grade, district) for KGS (administrative data) from 2017 to 2020
- Zambia MOGE Overall caseload for HGSM

EXTRAPOLATING HOUSEHOLD CONSUMPTION FROM 2015 TO 2020 AND POVERTY ESTIMATIONS

The last household survey i.e. Living Conditions Measurement Survey (LCMS) was conducted in 2015 in Zambia. To run the simulations, HH consumption was first extrapolated from 2015 to 2019 using IMFs sectoral real GDP growth estimates for Zambia and then further estimated for 2020 using IMFs sectoral real GDP growth forecasts for 2020 (last updated by IMF in July 2020). The real GDP was further converted to real GDP per capita using national populations growth rates for respective years. The sectoral estimates and forecasts are broadly divided into three sectors i.e. Primary Sector (Agriculture and Mining), Secondary Sector (Manufacturing), and Tertiary Sector (all Services sector).

	REAL GDP GROWTH ESTIMATE					FORECAST	POPULATION GROWTH RATE (NATIONAL)					REAL GDP PER CAPITA				
	2015	2016	2017	2018	2019	2020F	2016	2017	2018	2019	2020F	2016	2017	2018	2019	2020F
PRIMARY SECTOR	-3.3	5.8	5.8	-5.4	-5.4	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	-8.3	-8.3	0.1
SECONDARY SECTOR	10.5	4.7	6.7	3.8	-1.7	-7.4	2.9	2.9	2.9	2.9	2.9	1.8	3.8	0.9	-4.6	-10.3
TERTIARY SECTOR	2.2	2.8	1.7	7.3	4.6	-6.9	2.9	2.9	2.9	2.9	2.9	-0.1	-1.2	4.4	1.7	-9.8

Based on the updated HH Consumption for 2019 and 2020, the poverty rate for 2019 and 2020 was estimated for Zambia overall as well as for rural and urban areas. Furthermore, using UN population prospects, the household and population weights in the survey were modified to reflect the household and overall population in 2019 and 2020. The estimated poverty rates were then used in the simulation found in Annex 3E.

SOCIAL PROTECTION COVID-19 RESPONSE SIMULATION METHODOLOGY

For social protection response simulations, household (HH) consumption distribution for 2020 was used, estimated using IMF forecasts described above. At present, the SCT program is not fully operational. Therefore, prior to simulating any further expansions of COVID-19 to meet the needs of the new poor, or those poor not currently covered by SCT, simulations were done to see the effect of a fully operational SCT program, i.e., covering 614,479 households, on poverty, poverty gap, and inequality. The following scenarios were simulated:

Status Quo SCT: Fully operational SCT in 2020 at original transfer amount—K 90 for regular HHs and K 180 for HHs where HH head is a person with disabilities. The benefit amounts are adjusted for inflation and final figures used are K 67.5 and K 125.6 respectively.

Enhanced SCT: Fully operational SCT in 2020 at a higher transfer amount—K 150 for regular HHs and K 300 for HHs where HH head is a person with disabilities. These amounts are chosen such that the 2021 transfer value adjusted for inflation is equivalent to the 2017 transfer value. The benefit final figures used were K 93.5 and K 187 respectively.

7NDP SCT: A further enhanced SCT that pays its full caseload benefits at a higher transfer amount, equivalent to the 2020 7NDP target of 15 percent of the poverty line.

These amounts are added to the extrapolated 2020 HH consumption of 614,479 HHs which are inputted to LCMS 2015 using the mix-assignment targeting methodology described above in the Performance Simulation methodology. After updating the HH consumption, the poverty rate, poverty gap, and GINI Index are estimated for the two scenarios. These indicators are further estimated for rural and urban populations separately.

SCT Performance Simulation methodology

The analysis done in this chapter is based on simulations built using data from 2015 LCMS. However, not only did the survey not contain information on the recipients of the SCT, but the program has changed significantly between 2015 and 2019. For example, changes include scaling up to about three times the caseload and adding new categories of households such as female-headed households with 3+ children. To estimate the program's performance in terms of coverage, targeting effectiveness and potential impacts of the program, three different methodologies are used to assign the benefits to households.

SCT targeting follows a two-step approach. First, it identifies households that fall under four categories—female-headed households with three or more children, household head with disabilities, child-headed household, and household headed by a senior (> 64 years). Second, it applies a proxy means testing (PMT) methodology to identify, out of those households that fall under the categorical targeting, which ones are poor.

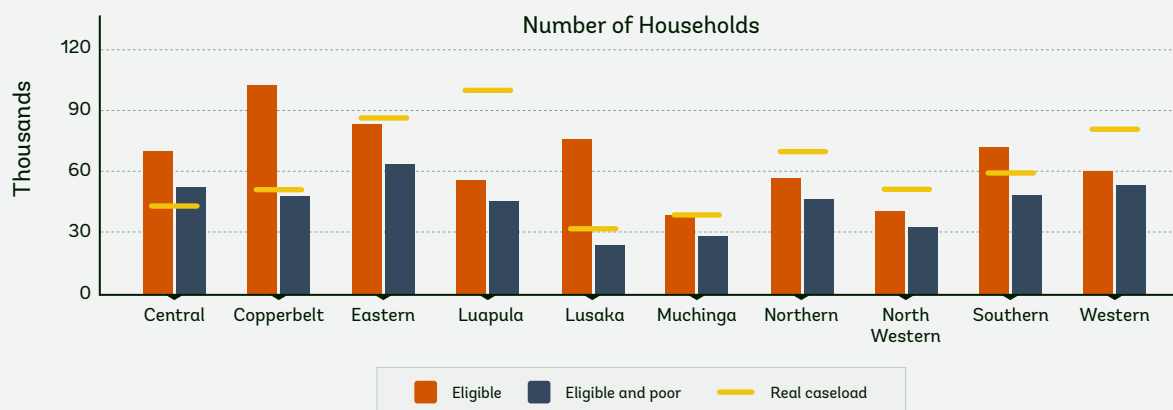
The simulations in this report follow a similar approach, but do not replicate PMT as the current PMT scores being used in Zambia are based on the asset and education data from the 2010 LCMS survey; similar data for 2015 LCMS was unavailable. Instead, all the households that fall under the categorical targeting (eligible) are identified and assigned the benefits to match the actual total caseload by district in three different ways (see below).

The caseload was assigned in three different ways within those districts that have a larger caseload than the number of households that fall under the categorical eligibility criteria.

The first (referred to as “assigned for the poorest”), distributes in each of the districts the caseload to the poorest (based on 2019 poverty estimate described above) among the households that fall under the categorical targeting. This scenario provides the maximum potential impact of the program in terms of categorical eligibility, given that there is the lowest possible number of nonpoor households receiving the benefit. However, since the PMT is a statistical methodology, by design it includes inclusion and exclusion errors. As alternative approaches to the previous one, two scenarios that include these potential errors were simulated.



Figure 3E.1: Provincial caseloads are often higher than eligible households



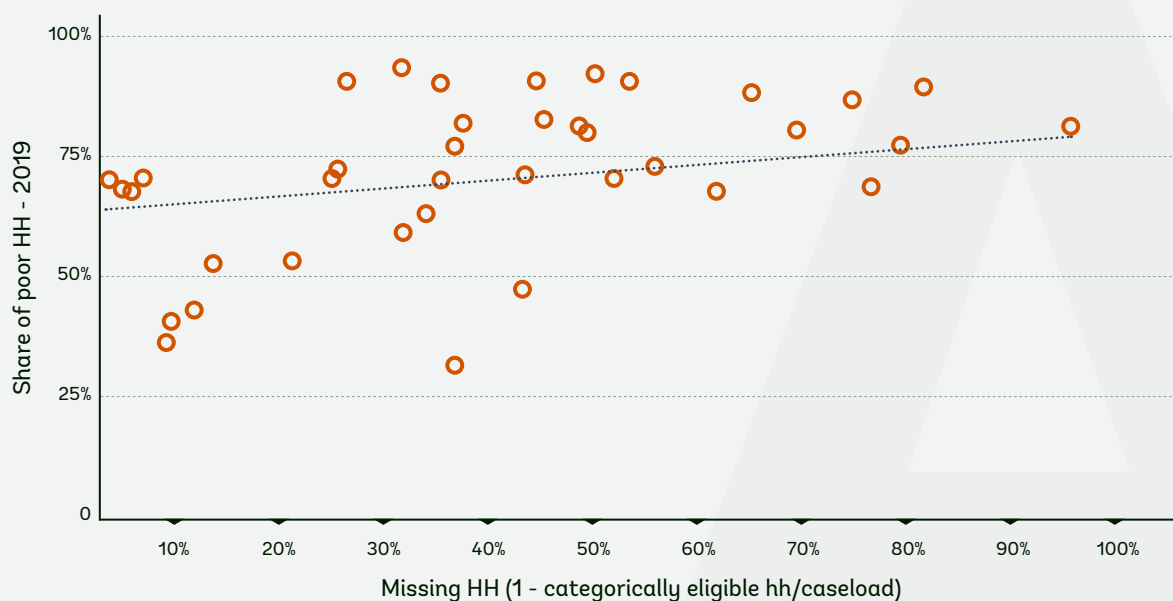
The second set of results (referred to as “random assignment”) represents the opposite of the first approach, assuming that the PMT is not effective in identifying the poor. Within each district, the caseload is randomly distributed among the households under the categorical targeting. As is shown in the analysis below, even with a random assignment, the program still reaches households in the bottom of the consumption distribution, given the categorical targeting and the regional distribution of the caseload.

The third and final approach (referred to as “mixed assignment”) assumes that the PMT works partially, improving the chances of the poor of participating in the program. To simulate this scenario, half the caseload of each district is randomly assigned among the households that are eligible (i.e., meet the categorical criteria), and the other half to those eligible and poor. Considering that the PMT is a statistical methodology that has exclusion errors and cannot identify perfectly the poorest, but, on the other hand, is tailored to be correlated to poverty and better than a random assignment, this is considered the best approach.

However, as it can be noted in the graph below, some of the provinces fall short in terms of number of households that fall into the categorical eligibility criteria. This could be a result of significant changes to the composition of the population—either by the increase of this type of households, or by migration—and by extrapolating the 2015 population structure using the overall population growth the number of households that would fall under that criteria is being underestimated; or the caseload is larger than the eligible population in those districts. Regardless of the reason, most of the districts with an excess caseload are poorer than the average, as can be seen on the graph below.



Figure 3E.2: Caseload allocations by district in line with number of poor



ANNEX 3E

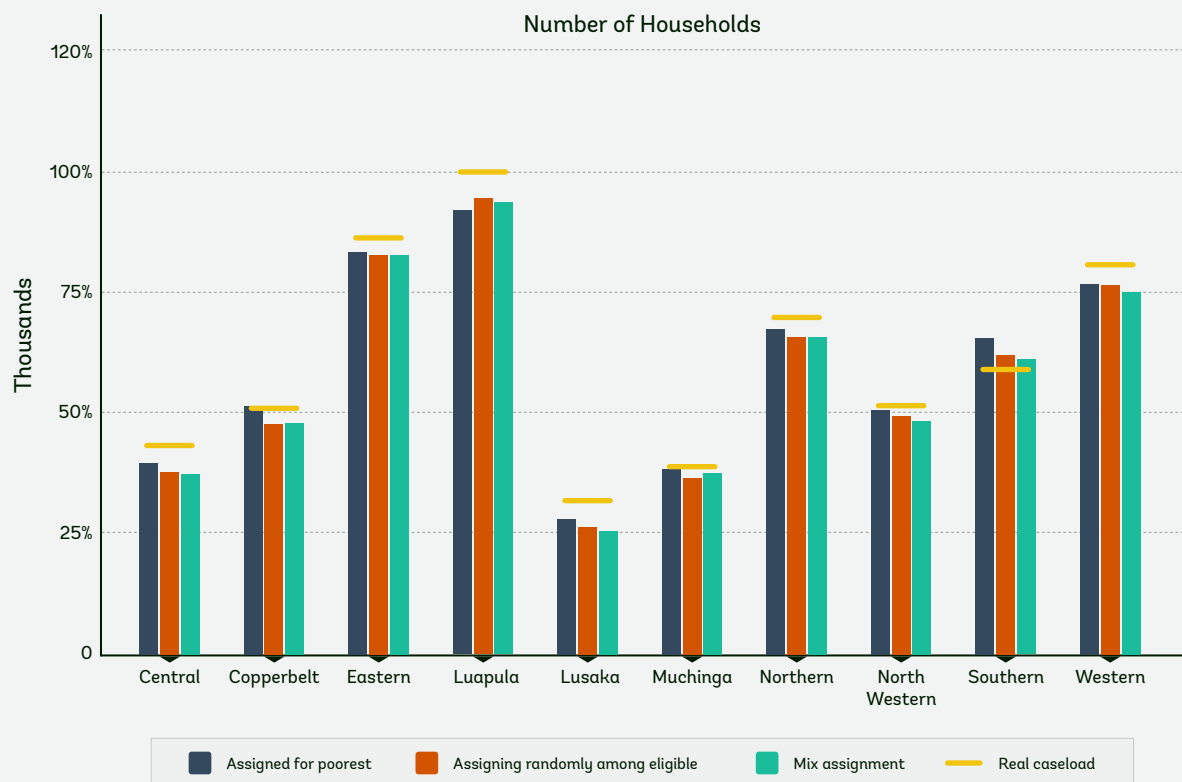
In districts without enough households that filled the categorical eligibility criteria, the methodology followed was similar to the third one—assigning randomly half of the remaining caseload to poor households in that district, and the other half randomly to any household in it that did not already receive the benefit.

Except for the first approach, where benefits are assigned to the poorest, both the first and second steps of assigning the benefits rely on randomization. To avoid the possibility that the choice of the seed of the randomization determine the output, a Monte Carlo simulation was run. It basically consists of running the analysis using different randomization seeds, and taking an average of the result indicators. In this case, because of the regional distribution of the SCT and the categorical targeting, the results in terms of distribution of the benefits and poverty impacts did not vary a lot even using different seeds. After several iterations, the average of the previous iterations stop fluctuating with the addition of new iterations. The results presented here are the final averages after 200 iterations.

The graph below shows the distribution of the caseload and the simulated benefits using the three methodologies across provinces.¹¹²



Figure 3E.3: Caseload simulation using three assignment rules



112. In the case of some districts in Luapula and the North Western provinces, the number of households in the survey that fall under the categorical targeting rules is smaller than the total caseload for that district. In that case, all the households were assigned the benefits.

SUMMARY OF IMPACT EVALUATIONS AND PROGRAM ASSESSMENTS



Multiple Category Transfer Program (MCP)



DURATION: 2010-



GEOGRAPHIC COVERAGE

Luwingu and Serenje



PROGRAM EXIT: Age-out



BENEFIT LEVEL (MONTHLY): US\$11



AIM:

To assist the most vulnerable households in the society, allowing them to meet their basic needs related to health, education, food, and shelter.



TARGET GROUP:

Households that fall into any of the following categories: female headed and keeping orphans, having a member with disabilities, headed by an older person and keeping orphans, or special cases of critically vulnerable households that are not included in any of the aforementioned categories.

<p>Evaluation Period (years of exposure): 2011-2014 (3 years)</p> <p>Method: Experimental (RCT)</p> <p>Household welfare: Reduced poverty-related outcomes - increased monthly per capita expenditures by K 17 (an increase of 28%); reduced household food insecurity by three points (0.6 SD) on the HFIAS; and increased nonproductive assets by 0.4 items on average.</p> <p>Health: No statistically significant impact on perceived stress. Food security and household deaths were related to higher levels of stress. Although the program did reduce food insecurity, the size of the reduction was not enough to generate a statistically significant change in stress levels.</p>	(Hjelm et al. 2017)
<p>Evaluation Period (years of exposure): 2011-2014 (3 years)</p> <p>Method: Experimental (RCT)</p> <p>Household welfare: Large impact on total consumption at 24- and 36-months, with an average effect size of approximately 30 percent over both follow-up periods (mainly driven by food consumption).</p> <p>Livelihoods: Significant impacts on the asset index for each program, with a noticeable increase in the effect size between 24- and 36-months for livestock (from 0.19 to 0.28) and domestic assets (from 0.13 to 0.24).</p>	(Handa et al. 2018)



Child Grant Program (CGP)



DURATION: 2010-



GEOGRAPHIC COVERAGE:

Kalabo and Shangombo in the Western Province and Kaputa in Northern Province.



PROGRAM EXIT:

Households “age-out” or graduate from the program when the index child turns five



AIM:

Supplementation of household income, increased enrollment and attendance in primary school, reduced child morbidity, productive assets, food security, and improved mortality and nutrition.



TARGET GROUP:

Any household with a child under 3 years old in three districts with high poverty and rates of infant mortality and under-nutrition.



BENEFIT LEVEL (MONTHLY):

70 kwacha (KW) (equivalent to U.S. \$11-12)

<p>Evaluation Period (years of exposure): 2010-2013 (3 years)</p> <p>Method: Experimental (RCT)</p> <p>Schooling and child labor: CGP raised school enrollment and possibly even decreased child paid labor. Program impacts on enrolment at age 4-7 range from 5 to 6 percentage points, and larger impacts from 6 to 9 percentage points are seen for children age 11-14 years old who are transitioning to lower secondary school. An important pathway for these effects is through the purchase of school uniforms and shoes.</p>	(Handa et al. 2015)
<p>Evaluation Period (years of exposure): 2010-2013 (3 years)</p> <p>Method: Experimental (RCT)</p> <p>Household welfare: Reduced poverty-related outcomes - increased monthly per capita expenditures by K 10 (an increase of 20%); reduced household food insecurity by three points (0.5 SD) on the HFIAS; and increased nonproductive assets by 0.7 items on average.</p> <p>Health: No statistically significant impact on perceived psychological stress. Food security and household deaths were related to higher levels of stress. Although the program did reduce food insecurity, the size of the reduction was not enough to generate a statistically significant change in stress levels.</p>	(Hjelm et al. 2017)
<p>Evaluation Period (years of exposure): 2010-2013 (3 years)</p> <p>Method: Experimental (RCT)</p> <p>Livelihoods and financial inclusion: CGP enabled poor women to save more cash (with larger impact for women with lower decision-making power at baseline) and increased diversification into nonfarm enterprises that are traditionally operated by women, driven in part by the increased savings generated by the cash transfer.</p>	(Natali et al. 2016)
<p>Evaluation Period (years of exposure): 2010-2013 (3 years)</p> <p>Method: Experimental (RCT)</p> <p>Beginning with the CGP, the program has had a significant impact on seven of the nine domains considered, the two exceptions being children’s schooling and young child anthropometry. The largest effect sizes occur for subjective well-being (relative poverty) and for children’s material needs, both at 24-months. However, both indices are subject to a ceiling effect (no further room for improvement among treatment households) which explains why their effect sizes decline at 36-months. Overall there is no clear indication that effect sizes increase over time. One important result is the lack of impacts on child nutritional status despite that being one of the primary objectives of the CGP.</p> <p>Household welfare: Large impact on total consumption at 24- and 36-months, with an average effect size of approximately 27 percent over both follow-up periods.</p> <p>Livelihoods: Significant impacts on the asset index, especially domestic assets, that remain somewhat stable across time.</p>	(Handa et al. 2018)



Social Cash Transfer (Monze)



DURATION: 2017



GEOGRAPHIC COVERAGE:

Monze district



BENEFIT LEVEL (MONTHLY):

K 40,000 or K 50,000 a month (equivalent to \$8 or \$10 respectively, depending on whether or not the household has children)



TARGET GROUP:

Labor constrained and destitute households



CONDITIONS:

The Monze program, while using the same inclusive targeting mechanism as the Kalomo program, experimented with educational and health conditionality on the beneficiaries

Evaluation Period (years of exposure): 2007-2010 (3 years)

Method: Quasi Experimental (Treatment: Random Assignment; Control: Matching)

Livelihoods: Strong impacts on livestock ownership, particularly goats and chicken, and among smaller households, pig ownership for beneficiaries. Program households are more likely to purchase fertilizer and to produce a greater quantity of cash crops.

Education: Strong impacts on school enrollment, in a similar range to other programs (seven percentage points), and very strong impacts on enrollment of younger children (20 percentage points) indicating that the program influences on-time school entry

Household welfare: No impacts on food expenditures or food composition.

Health: No statistically significant impacts on health outcomes

(Seidenfeld and Handa 2011)



Social Cash Transfer (Kazungula and Chipata)



DURATION: 2005/6



GEOGRAPHIC COVERAGE:

Chipata and Kazungula Districts



BENEFIT LEVEL (MONTHLY): N.A.



AIM:

To estimate the impact of SCT on HH welfare



TARGET GROUP:

Female/Widow Headed, Child Headed, Persons with disabilities

Evaluation Period (years of exposure): 2007

Method: Quasi-experimental (odds-weighted regression framework)

Household welfare: Positive effects on per capita consumption expenditure. Impact on nonfood expenditure is greater among nonpoor households, while poorer households experience greater impact on per capita food consumption expenditure.

(Tembo, Chimai, et al. 2014)

ANNEX 3F



Social Cash Transfer (Kalomo)



DURATION: 2003



GEOGRAPHIC COVERAGE:

Kalomo District



BENEFIT LEVEL (MONTHLY): N.A.



AIM: To estimate the impact of SCT on HH welfare



TARGET GROUP:

Female/Widow Headed, Child Headed, Persons with disabilities

Evaluation Period (years of exposure): 2007

Method: Quasi-experimental (propensity score matching and odds-weighted regression framework)

Household welfare: Positive effects on per capita consumption expenditure. Impact on nonfood expenditure is greater among nonpoor households, while poorer households experience greater impact on per capita food consumption expenditure.

(Tembo, Freeland, et al. 2014)



Keeping Girls in School (KGS)



DURATION: 2017-



GEOGRAPHIC COVERAGE:

Gwembe and Mungwi



BENEFIT LEVEL (ANNUAL):

US\$ 319



AIM:

To provide education support to enable secondary school girls from poor households to continue schooling



TARGET GROUP: Adolescent Girls

Evaluation Period: 2019

Method: Exploratory study primarily employing qualitative methods

Education: Significant increase in school enrollment

Other: Increased knowledge, alleviating financial stress of schooling from parents, and having a changed outlook on life and a sense of hope about the future.

(Friedson-Ridenour and Milapo 2020)



Home Grown School Meals (HGSM)



DURATION: 2003-



GEOGRAPHIC COVERAGE:

Eight Districts



TARGET GROUP:

School Children, Smallholder Farmers



AIM:

Improving the quality of learning and overall learner outcomes, to enhance small holder farmer's productive capacity by linking them to a ready market



BENEFIT LEVEL: N.A.

<p>Evaluation Period: 2018 – 2019</p> <p>Method: Impact Evaluation</p> <p>Income: HGSM leads to a reduction in total gross income of 40 percent. The combined treatment increases gross income by 42.8 percent.</p> <p>Food and Nutrition Security (FNS): School meals have a positive impact on the FNS indicators, however, when considering HGSM as a whole, i.e. as a combination of school meals and market access benefits, the impacts on FNS indicators become negative.</p> <p>Education: HGSM has a positive impact on schooling outcomes, increasing attendance rates and contributing to keep children in school from one year to the next, thus reducing the dropout rate. When studying the HGSM program as a whole, however, impacts on educational outcomes are nullified.</p>	(Prifti and Grinspun 2019)
<p>Evaluation Period: 2018 – 2019</p> <p>Method: Quantitative Evaluation, Qualitative Evaluation, Micro Simulation</p> <p>Overall, each program component fulfilled its own stated objectives, but public procurement component partly offsetting the effects of the school meals. There is a need for action to improve coherence within and between programs.</p>	(FAO 2020)
<p>Evaluation Period: 2019</p> <p>Method: Cost-Benefit Analysis</p> <p>Costs and Benefit: The benefits of the HGSM program far outweigh the costs. Every US\$1 invested in school feeding in Zambia creates US\$6.9 of value in the country's GDP.</p> <p>Education: School enrollments were relatively higher in intervention areas—14 percent higher in the intervention districts than in the control districts</p>	(MOGE 2020a)

ESTABLISHING A GENDER-BASED VIOLENCE (GBV)-RESPONSIVE GRIEVANCE REDRESS MECHANISM (GRM)

Gender Based Violence (GBV) is a widespread problem in Zambia, with girls and women, particularly those in rural areas, facing high rates of GBV, including Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH). While participating in the GEWEL Project is expected to enhance their well-being, it is possible that this participation may put them at an even greater risk of GBV. To ensure safety and to address this risk, GEWEL has supported the government in the roll-out a GBV-responsive GRM which includes a survivor-centric approach and fast-tracking for GBV complaints.

Key elements of a GBV-sensitive GRM

Based on findings from a GRM pilot carried out in 2018-2019, it became clear that ensuring that the GRM is adapted to GBV, including SEA/SH, meant reviewing each step in the grievance process from the perspective of vulnerable and extremely poor girls and women in Zambia. This included developing a strong understanding of GBV risks along the service delivery chain, and inclusion of a survivor-centric approach. Through this process, the GRM has been adapted to incorporate GBV principles. Key elements of the GBV-sensitive GRM are:

- Multiple independent channels
- A face-to-face trusted option. A Female Community Grievance Focal point, is selected by GEWEL girls and women based on a set of criteria, including being a trusted and respected member of the community. Focal Points receive training, particularly on how to handle SEA/SH complaints, (i.e. informed consent, confidentiality, survivor centrality).
- Complaint Boxes. These better allow for anonymous complaints, and girls and women choose where the Complaint Boxes will be placed in their communities and District Grievance Focal Persons are responsible for collecting complaint forms monthly, entering them into the Management Information System (MIS), resolving or referring complaints (in coordination with relevant agencies), and delivering responses.
- A Telephone Hotline through a specialized NGO. Lifeline/Childline Zambia is an existing national hotline for GBV and HIV as well as other child protection related issues. GEWEL is collaborating with Lifeline/Childline to ensure awareness of the GRM, particularly among girls in GEWEL schools, and to receive monthly reporting on complaints made in GEWEL districts. All GBV cases are reported immediately, within the guidelines of the Information Sharing Protocol. Callers receive counselling over the phone, referral to appropriate services in their District, and case management until the case is closed.
- Ensuring survivor safety and robust M&E: Important steps were taken in the design of the GRM MIS module to ensure survivor safety including limited access to the module and serious complaint information not being visible to all MIS users. To reinforce data privacy and security, a simple Information Sharing Protocol was developed, outlining guiding principles for data sharing, data management and security. Given the importance of monitoring and assessing the GRM in the early stages, the MIS module also includes an interactive M&E framework where officers at various levels can design, carry out, or review M&E activities and reports in real time.
- Support to survivors: The GEWEL GRM has a Fund to Address Serious Complaints that is allocated to each district. Guidelines are currently being developed to ensure an immediate response to GBV cases at the district level as well as providing additional support needed by survivors.

Early Implementation Results (December 2020)

The roll-out of the GRM coincided with the confirmation that COVID-19 had reached Zambia in March 2020. While Complaint Boxes and the Hotline were put in place, it was not possible for the selection of Community Focal Points or community sensitization to take place, as planned. As a result, to adapt to COVID-19, GEWEL made modifications to the placement of boxes and complaints forms, introduced radio messaging and coordination with women's organizations at community level. Although such adaptations were made, early implementation results to date suggest that there is no replacement for community-based sensitization and face-to-face interactions to ensure the purpose and procedures of the GRM are understood widely by communities. The importance of community sensitization was even more important given that a formal GRM was being introduced for the first time in most communities.

Findings to date indicate a huge general interest in the GRM by communities with a large number of Complaint Forms having been filled in and submitted through Complaint Boxes. The Hotline has also been accessed. A review of Complaint Forms to date, however, indicate that the vast majority of Forms are not actual complaints about KGS or SWL but rather are either submissions that are non-GEWEL related; requests for information/clarification about KGS and SWL; or requests to participate in the programs.






4

JOBS AND ECONOMIC INCLUSION

Productively Engaging the Poor and Vulnerable

- 4.1.** Executive Summary
 - 4.2.** Introduction
 - 4.3.** A critical role for Jobs and Economic Inclusion Programs
 - 4.4.** Addressing multiple constraints to economic inclusion
 - 4.5.** The JEI sector: Policy framework and programs
 - 4.6.** Program design and effectiveness
 - 4.7.** Program performance
 - 4.8.** Future directions and policy recommendations
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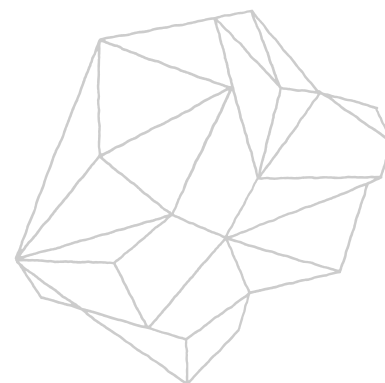
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4.1.

EXECUTIVE SUMMARY

178. The past 16 years have seen considerable changes in Zambia's employment landscape.

While the labor force continues to grow in absolute terms, the labor force participation rate is falling. The gap between the size of the labor force and the working-age population has more than doubled, from 1.02 million people in 2005 to 2.14 million people in 2019.¹¹³ There has been a significant shift out from employment in agriculture to employment in the services sector, over the last 15 years. Alongside this, the size of the informal sector is large, with 54 percent of employed Zambians working in informal jobs.

179. Young adults, women, rural people and those with low levels of education face disproportionately high risks of unemployment and labor market exclusion.

A close analysis of the most recent Labor Force Survey (LFS) data outlines some of the demographic groups facing such elevated risk levels. Young adults aged 15 to 35 face a level of risk for unemployment and long-term unemployment that is disproportionately higher than older people in the working age population. LFS data from 2019 shows that 18.9 percent of young people in the labor force were at risk of unemployment, compared with only 6.5 percent of persons aged 36 to 64.

180. The constraints faced by Zambian youth are particularly apparent when looking at measures of disconnect from the labor market. NEET (Not in Education, Employment, or Training) youth are often faced with challenges pertaining to discouragement with respect to job opportunities and limited access to education. The share of youth NEET in Zambia is very high at 43 percent. In comparison, in 2019 the NEET rate for youth globally was 22.2 percent, and 20.7 percent for Africa.¹¹⁴ Overall, there are more than 3 million young Zambians who are either not active in the labor market, or are unemployed.

181. The Government of Zambia has developed a strong policy framework centered around job creation and economic diversification. Zambia's National Social Protection Policy (2014) includes goals to increase employment opportunities and income-generation activities. In its Vision 2030, Zambia aims to become a prosperous middle-income country by the year 2030, and contains ambitious employment-related goals, such as maintaining the unemployment rate to below 10 percent of the total labor force by 2030, having an efficient and effective Labor Market Information System in place by 2015, and ensuring that the minimum wage is commensurate with the prevailing

113. This divergence may also be expressed as a drop in the labor force participation rate, which fell from 79.8 percent in 2005 to 75.3 percent in 2019.

114. International Labor Office. 2020. Global Employment Trends for Youth 2020, Briefing Note. ILO: Geneva.

living wage. The Jobs and Economic Inclusion (JEI) pillar encompasses programs that seek to provide support to households and groups who lack sufficient capacity to generate adequate reliable income to support their livelihoods. Interventions typically include provisions of finance, agriculture inputs, employment, training, and entrepreneurship skills.¹¹⁵

182. Government commitment was manifest in increased budget allocations for JEI programs since 2014.

Budgetary allocations for JEI increased between 2014 and 2021, averaging about 0.18 percent of GDP during this period. The authorized budget provision of JEI programs increased from K137 million in 2014 to K2,204 million in 2021. The significant budgetary allocations in 2021 can be attributed to the COVID-19 crisis in 2020. This prominent increase is due to a ten-fold increase in the allocation to the Food Security Pack from K100 million in 2020 to K1.1 billion in 2021.

183. Financial commitments and budgetary allocations have not, to date, translated to expenditures.

The budget execution rate, defined as the share of actual spending in the total authorized budget provision, decreased from 73 percent in 2014, to around 64 percent in 2018. Over the period 2014-2018, the execution rate averaged 63 percent, meaning that over one-third of the authorized budget remained unspent, on average. Additionally, no single program had consistent expenditure over this period which points to inefficiencies in spending.

184. A JEI landscape survey found a very high level of program fragmentation across ministries.

The survey indicated that seven ministries were actively implementing one or more JEI programs. Furthermore, few programs were aware of what other ministries were doing in this field, suggesting a lack of coordination among programs to avoid duplication of efforts. Program caseloads are extremely low, cumulatively covering only about 6 percent of population.

185. Budget allocation by subgroups reveal small share allocated to labor market and employment programs, with some budget lines shrinking drastically with time.

This is despite the fact that this category has the largest number of programs. For example, the Decent Work Promotion program launched by ILO in 2007, with an aim to achieve full and productive employment and decent work for all in Zambia, received only K3.8 million on average during the five-year span. On the other hand, livelihood and empowerment programs increasingly took up a significant share of the JEI budget, signifying government's priorities.

186. Overall coverage of JEI programs is modest, and most programs have not been significantly scaled up.

With a little over a million beneficiaries, JEI programs cover six percent of the total population in Zambia. Since the majority of the programs are targeted to the poor, the coverage is only 11 percent of people below national poverty line. JEI programs tend to be relatively small and so far, only two programs have scaled i.e. FSP and SWL with 500,000 375,000 beneficiaries respectively. In the absence of these two programs, all the other programs combined cover a little over 1 percent of the Zambian population.

187. Program management issues were strikingly prevalent, with very few programs having a software-based M&E system, and even fewer with a working MIS system.

Little attention was paid as to whether programs had the same beneficiaries, which could have been verified had M&E systems been more advanced across the board.

188. Going forward, Zambia must consider expanding the JEI sector.

In line with policy commitments, advocated by 7NDP and the 2014 Social Protection Policy, and given the scale of poverty and vulnerability, further expansion of the JEI sector is necessary. This would also be consistent with the recent global momentum

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115. MCDSS (2014). National Social Protection Policy. Ministry of Community Development and Social Services, June 2014

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to strengthen and scale up economic inclusion for the poorest and most vulnerable. Economic inclusion programs, in particular, are seen as an important complement to existing antipoverty efforts. They are a key driver of safety nets-plus agenda where “plus” refers to the potential of complementing cash with additional inputs and service components such as skills training, coaching, market links, and access to financial services.¹¹⁶ With unemployment and underemployment on the rise in both urban and rural areas, special attention must be given to fixing the lower share of labor market and employment programs in the Zambian market.

189. Execution rates for JEI programs need to improve. This can be done by closing the gap between allocations and spending for current programs. Going forward, ensuring sustainable allocations and releases by the government will be paramount to making the system more efficient and effective. With fiscal space continuing to shrink and the economic fallout COVID-19, budgetary allocation and releases to JEI programs may not be guaranteed in the coming years. As a result, development partners must continue to step in to finance the significant shortfalls. The government may also exploit alternative sources of financing outlined in 7NDP such as joint ventures, private sector investment and public private partnership to mobilize more resources required for implementation of JEI programs.¹¹⁷

190. Consolidate programs and reduce the fragmentation of programs across ministries. Job programs are managed by several ministries. Many programs within and across ministries address similar demand and supply side issues, creating overlaps. Efficiency gains can be attained by redistributing responsibilities for job programs and merging programs into one. Implementation processes for institutional arrangements outlined in the 2014 Social Protection Policy could also be improved. Furthermore, strengthening coordination and communication between programs can

contribute to achieving common goals more effectively. This could be done through the creation of an inter-ministerial coordinating body to oversee all JEI programs within Zambia.

191. Focus on bundling multiple interventions, particularly, when aimed at the extreme poor.

A review of international evaluations of JEI programs shows that bundling shows greater impact on income, assets, and savings relative to stand-alone interventions. JEI programs offer potential to redesign programs through a bundling of additional interventions, such as capital infusion, training, and coaching. Such interactions are likely to drive overall program impact. While stand-alone interventions can also impact incomes, assets, and resilience, a single intervention would not necessarily help those facing multiple constraints or would do so to a lesser extent. The Supporting Women’s Livelihood initiative under GEWEL Project provides one such program around which economic inclusion programming could potentially consolidate.

192. Foster labor-intensive growth that targets youth.

Youth in most low-income countries struggle to find their first job and are more likely to be in unpaid family work or the informal sector. In such circumstances, development of labor-intensive growth and fostering of youth schemes and employment incentives can help smooth the transition from school to work and/or encourage orderly emigration. This should go hand-in-hand with addressing the financial constraints for young Zambians. Measures such as subsidized dual apprenticeships have the potential to address financial constraints for youth as well as employers’ inability to commit to provide general training. The dual approach combines wage subsidies with a dual training approach; on-the-job training in firms is complemented by theoretical training in vocational training centers.

¹¹⁶. The World Bank Group 2021. State of Economic Inclusion Report 2021: The Potential to Scale

¹¹⁷. Ministry of National Development Planning 2017. 7th National Development Plan (2017-2021)

4.2.

INTRODUCTION

193. To foster economic inclusion in Zambia, policy initiatives must consider the specific constraints to labor market activity faced by different demographic groups.

As in other countries in Sub-Saharan Africa, the poor population of Zambia is disproportionately concentrated in rural areas and many workers in these areas are engaged in low-productivity agricultural employment. However, Zambia's labor force participation rate is low for the region and it continues to fall as population growth outstrips job creation. The country has a young population and addressing youth employment challenges is critical to ensure that the country benefits from a potential demographic dividend. Currently, the share of youth classified as Not in Education, Employment, or Training (NEET) in Zambia is much higher than the regional or global average. This means that a large proportion of youth are not gaining skills and accumulating experience, which presents a potential challenge for the jobs market of the future.

194. Zambia has a young population.

As in many other countries in Sub-Saharan Africa, a combination of high fertility and high mortality has lowered the average age of the Zambian population. A youth bulge (people under 35 years) is evident in the general population pyramid for the country (Figure 4.1). Among the urban population, the bulge is more specific to the age cohort of 15 to 35 years (the population age group the chapter will refer to as youth). Household survey data shows that this demographic group is mainly concentrated in Lusaka.

195. The poor population is disproportionately concentrated in rural areas.

This is especially true of young children, with roughly 2.8 million rural poor in the 0 to 14 age bracket, compared to only 0.54 million urban poor of this age (Figure 4.2). Among the country's working age population, 3.9 million of the poor live in rural areas versus only 0.9 million in urban areas. The vulnerable population of Zambia (consumption less than 20 percent above the poverty line) is relatively small, reflecting a society with a high degree of inequality in which persons tend to be poor or well-off, rather than in between. In total, the Living Conditions Monitoring Survey (LCMS 2015) data indicate there are 580,000 vulnerable people living in rural areas and approximately 400,000 in urban areas.

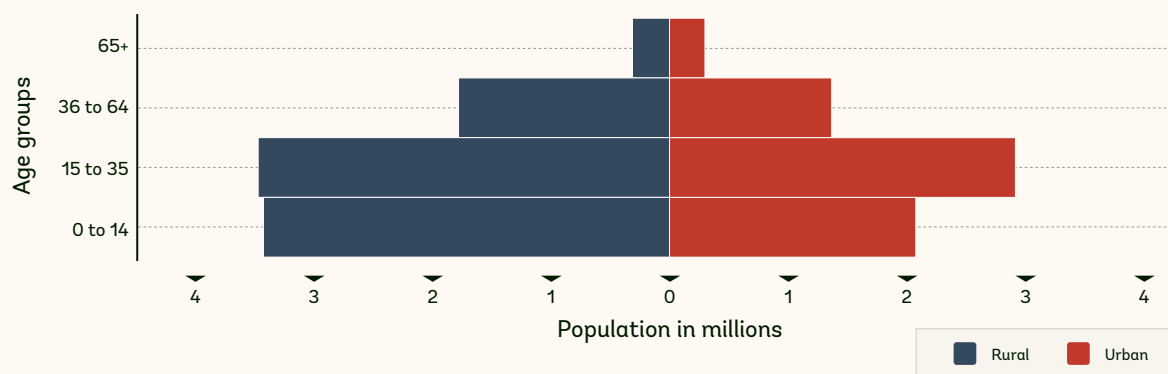
196. A large proportion of Zambians of working age are not in the labor force.

47 percent of people between the ages of 15 and 64 years not working or are unemployed (meaning they are available and looking for work). Two-thirds of those in the labor force have at least some secondary education, whereas only 12 percent have at least some post-secondary education.¹¹⁸ The Zambian labor force has grown considerably in recent years, from 5 million in 2005 to 7.4 million in 2019. Nonetheless, over the same period, the working-age population grew even more rapidly, from 6 million to 9.5 million, causing the labor force participation rate to fall from 79.8 percent to 75.3 percent.

197. A large share of employed Zambians work in the services sector and many have informal employment.

54 percent of Zambians are in

118. Zambia Statistics Agency (2019). Labour Force Survey.

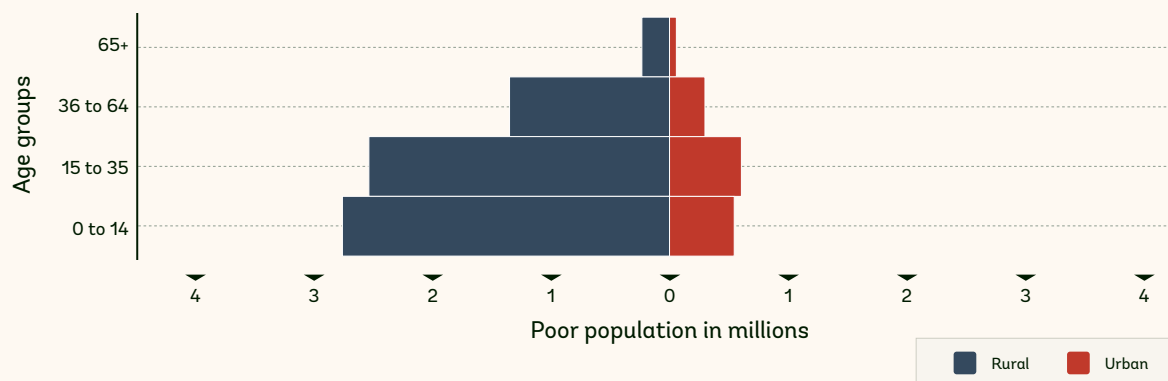

Figure 4.1: Overall population distribution by rural/urban


Source: Author's calculations based on LCMS 2015.

informal employment, 23 percent in formal employment, and 22 percent are working in agriculture. Most employed people work in the services sector (61 percent), followed by agriculture (22 percent) and industry (17 percent). This level of informality is low for the region. Looking only at nonagricultural employment, 65 percent of jobs in Zambia are in the informal sector, compared with 68 percent in Angola, 72 percent in Tanzania, and 89 percent in Kenya.

198. The demand side of the labor market continues to undergo a structural transformation from agriculture towards the services sector. The past 15 years have seen considerable changes in Zambia's employment landscape. The overall share of the employed population working in

agriculture dropped rapidly from 72 percent in 2005 to under half in 2020 (Figure 4.3). The share of workers in services rose just as quickly, particularly between 2008 and 2012. These findings are consistent with the narrative of a second wave of urbanization in Zambia following the de-urbanization trend of the 1990s. Disaggregating the employment numbers by gender, it becomes clear that, over this period, the employment of women in particular experienced a strong shift toward services. In 2000, the share of employed females who worked in services was 6 percentage points below the share of employed males in the sector. Twenty years later, the share of women was 2.5 percentage points higher than that of men (Figure 4.4).


Figure 4.2: Poor population distribution by rural/urban


Source: Author's calculations based on LCMS 2015.

199. The next section of this chapter outlines the critical role of jobs and economic inclusion activities by examining the constraints faced by specific groups in the labor market, notably unemployment for youth and the multiple overlapping constraints faced by women. This is followed by a section outlining the existing policy framework and existing jobs and economic inclusion programs in Zambia. The subsequent section analyzes trends in government spending in the sector and provides an analysis of different types of programs being implemented. This is followed by an analysis of project implementation, including design, coverage, targeting, and program management. The final section proposes potential future

directions for jobs and economic inclusion programming in the country. This chapter makes use of several data sources. These are as compiled in the audited annual financial reports of the Ministry of Finance (MOF) for the period 2014-2018 and Budget Estimates for the period 2019-2021. A landscape survey was launched in October 2020 with the objective of understanding where jobs and economic inclusion programs are anchored, who they target, their budgets and expenditures, their program management and implementation software, and whether there are synergies and coordination mechanisms for these programs (see Landscape Survey Tool in Annex 4A). The new labor market analysis presented here uses the latest nationally representative data, notably from the Zambia Statistics Agency's 2019 Labour Force Survey (LFS) and the 2015 LCMS.

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Figure 4.3: Trends in employment shares by sector

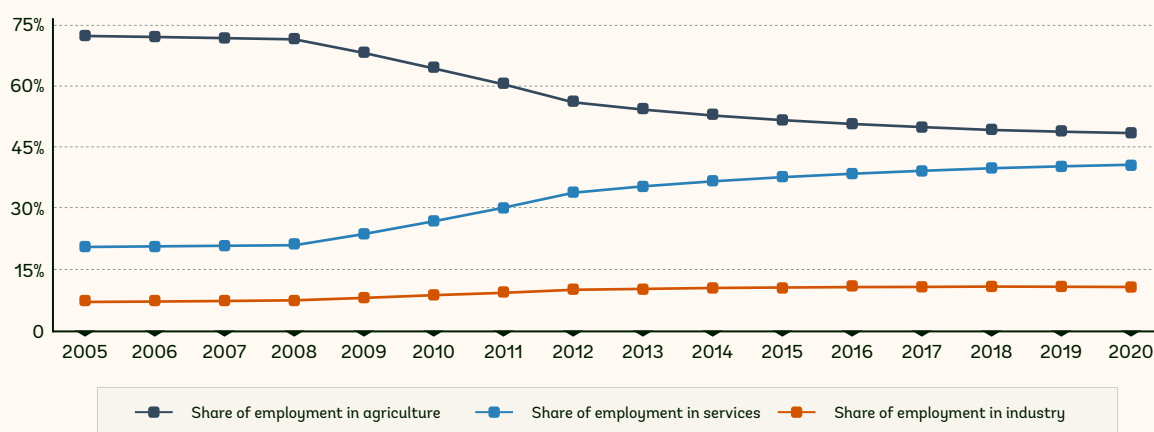
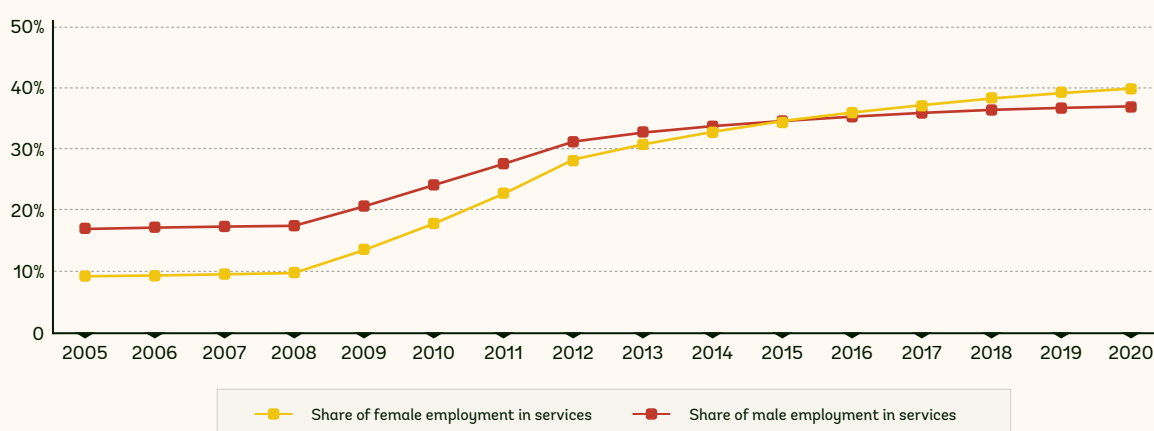


Figure 4.4: Trends in employment in services sector by gender



Source: World Development Indicators (modeled ILO estimates).

4.3.

A CRITICAL ROLE FOR JOBS AND ECONOMIC INCLUSION PROGRAMS

4.3.1. The challenge of youth unemployment and informality

200. Youth in Zambia are facing high levels of unemployment and informality in the job market, as structural transformation has failed to keep pace with urbanization. Zambia is returning to a trend of strong urbanization but, unlike other countries in the region where secondary cities are experiencing considerable growth, urban migration continues to be concentrated in Lusaka. Although the highly mobile youth population is shifting away from work in low-productivity agriculture, the growth of high-productivity jobs in services or manufacturing has remained limited. Businesses have tended to remain stuck at the level of informal household enterprises and gains in productivity have been limited.¹¹⁹ As outlined in the introductory chapter, the youth unemployment rate in Zambia has been consistently higher than nonyouth unemployment rate. The country's youth population bulge could offer a significant demographic dividend if sufficient high-quality jobs are made available to absorb the maturing workforce. However, a concerted policy strategy will be required to address this burgeoning problem. The share of NEET youth in Zambia is currently very high at 43 percent (more than double the rate for Africa¹²⁰). In the long run, this could impact job prospects and productivity by preventing young workers from developing skills and experience.¹²¹ Without appropriate job creation programs and the support of job markets in secondary cities, young people will face even greater problems of unemployment, underemployment, and informality as they enter the workforce.

201. Like other countries in the region, Zambia's youth population is expected to grow rapidly throughout this century. The expansion of the global youth population is becoming increasingly concentrated in Sub-Saharan Africa as birth rates remain high.¹²² Although other regions will see their youth populations decline, the absolute number of people in age group 15-24 years in Sub-Saharan Africa is expected to double by 2050 (Figure 4.5).¹²³ As discussed earlier, Zambia is experiencing a strong demographic bulge in its population under the age of 35 years. Despite a return to the pre-1990s trend of urban migration, Zambia's youth population remains concentrated in rural areas.¹²⁴ Tracking LFS data from 2008 until the present shows employment rates increasing in urban areas while falling in rural areas and, as will be discussed below, rural people are much more at risk of labor force inactivity or being in the potential labor force.

202. The Zambian labor market faces a range of different constraints to productive youth employment.¹²⁵ These include lack of information about returns on education and jobs, distorting labor regulations, employers lacking information about available workers, and lack of voice. Other constraints may also exist pertaining to business and job creation. Entrepreneurship aspirations, when they exist, clash with lack of capital and a lack of entrepreneurial training. Relative to Southern Africa, coverage of secondary education is significantly lower, and there are severe shortages in the supply of both TVET and tertiary

119. World Bank (2018). Zambia -- Systematic Country Diagnostic. Washington, D.C. : World Bank Group.

120. International Labour Organization. 2020. Global Employment Trends for Youth 2020, Briefing Note. ILO: Geneva.

121. International Labour Organization. 2020. Global Employment Trends for Youth 2020: Technology and the future of jobs. ILO: Geneva.

122. IFAD (2019). Creating Opportunities for Rural Youth: Rural Development Report 2019.

123. GIZ (2020). "What Works in Rural Youth Employment Promotion?"

124. Dino Merotto (2017). "Zambia Jobs Diagnostic: Volume 1 - Analytics." World Bank: Washington, DC.

125. Solutions for Youth Employment 2015.

education. Education and training are skills signals and are hence significant for youth looking for new employment opportunities. Another issue concerning youth employment is the chasm between youth aspirations and realities of the labor market. Most of the unemployed youth seek a career in public service, but few of these jobs are available, and older workers tend to keep these positions as long as they can. In fact, as discussed in detail in the Pensions chapter, the issue of pension lumpsum commutation implies that civil servants stay on the Government payroll even after reaching retirement age.

203. Agriculture is a critical sector for the Zambian economy, but youth face specific barriers to becoming farm owners. In Sub-Saharan Africa, longer life spans have meant that many parents continue to farm rather than transfer their land to their children as they enter the labor force.¹²⁶ The problem of land scarcity for smallholder farmers has also been exacerbated by the rapid growth of medium-scale farms controlled by urban-based investors and rural elites. In 2016, the proportion of farmland in Zambia controlled by medium-scale farms (between 5 and 100 hectares) was 52.9 percent, higher than in Tanzania (39.0 percent), Ghana (31.8 percent), and Kenya (19.0 percent).¹²⁷ Land scarcity and lack of capital have forced many young workers to continue farming within households headed by older family members, and thus find themselves outside of the targeting criteria of some of Zambia's agricultural support programs.¹²⁸ For example, in Bwacha village in Zambia's Northern Province, to join a cooperative and have access to the Farmer Input Support Programme (FISP) subsidies, farmers had to pay a one-off membership fee of K 50,000 and buy at least one share worth between K100,000 and K150,000, which represents a considerable capital outlay for most households especially the young.¹²⁹

204. Even outside of the agricultural sector, young people in Zambia face a number of challenges in the labor market. Access to capital is critical for starting a small business or investing in education, and youth tend to be worse off in this regard, often having less access to financial services, credit, and social networks.¹³⁰ A 2016 study in the informal settlement ("compound") of Chawama outside Lusaka found that young entrepreneurs faced many challenges including lack of capital, limited profits, fierce competition, and accusations of witchcraft following financial successes.¹³¹ Young people also face challenges in Zambia's highly competitive and highly informal job market. Many young men and women experience widespread employment insecurity that can take the form of insecure wages or profits, temporary contracts, an expectation of financial or sexual favors, nepotism, corruption, and dangerous work activities.¹³² The share represented by service jobs in youth underemployment is high, suggesting that although better jobs are being created in the economy, Zambia is not creating enough of them.¹³³

205. Along with unemployment, informality is expected to present considerable challenges for workers in the future. The formal sector is defined by the Zambia Statistics Agency as the units of production that are registered with a taxation and/or licensing authority. Fifty-four percent of Zambians are in informal employment, 23 percent in formal employment, and 22 percent are working in agriculture.¹³⁴ Most employed people work in the services sector (61 percent), followed by agriculture (22 percent) and industry (17 percent). The level of informality in Zambia is significant but is nonetheless lower than other countries in the region. Looking only at nonagricultural employment, 65 percent of jobs in Zambia are in the informal sector, compared with 68 percent in Angola, 72 percent in Tanzania, 79 percent in Zimbabwe, and 89 percent in Kenya (Figure 4.6).

126. IFAD (2019). Creating Opportunities for Rural Youth: Rural Development Report 2019.

127. Jayne, T. S., Chamberlin, J., Traub, L., Sitko, N., Muyanga, M., Yeboah, F. K., ... & Kachule, R. (2016). "Africa's changing farm size distribution patterns: the rise of medium-scale farms." *Agricultural Economics*, 47(S1): 197-214.

128. Djurfeldt, A. A., Kalindi, A., Lindsjö, K., & Wamulume, M. (2019). Yearning to farm—Youth, agricultural intensification and land in Mkushi, Zambia. *J Rural Stud*, 71: 85-93.

129. Birch-Thomsen, T. (2016). "Rural youth in northern Zambia: Straddling the rural-urban divide." *Young Entrepreneurs in Sub-Saharan Africa*.

130. IFAD (2019). Creating Opportunities for Rural Youth: Rural Development Report 2019.

131. Chigunta, F., Gough, K. V., & Langevang, T. (2016). "Overcoming constraints through ingenuity and social entrepreneurship." *Young entrepreneurs in sub-Saharan Africa*.

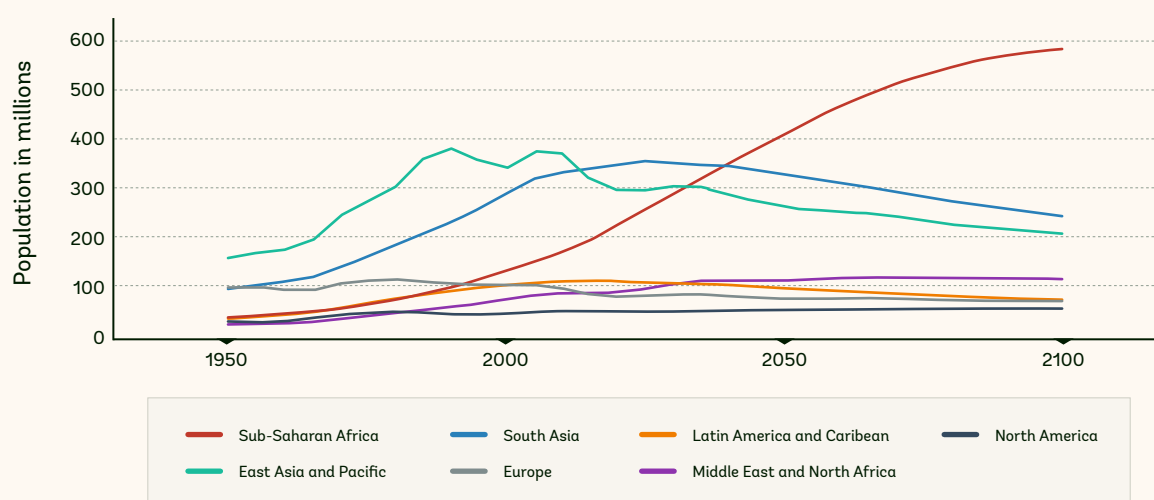
132. Gough, K. V., Chigunta, F., & Langevang, T. (2016). "Expanding the scales and domains of (in) security: Youth employment in urban Zambia." *Environment and Planning A*, 48(2): 348-366.

133. Dino Merotto (2017). "Zambia Jobs Diagnostic: Volume 1 - Analytics." World Bank: Washington, DC.

134. Zambia Statistics Agency (2019). Labor Force Survey.



Figure 4.5: Regional population trends, population ages 15 to 24 years



Source: GIZ (2020): "What Works in Rural Youth Employment Promotion?" with data from UNDP.

206. Informality can create a range of challenges for workers, firms, and government.

At the level of the worker, those in informal employment are not protected by labor regulations, and thus can face long working hours as well as hazardous or difficult working conditions. Informal sector workers tend to have lower wages than their counterparts in the formal sector and often have irregular and uncertain employment arrangements. Workers in the informal sector also remain ineligible for social protection and jobs programs that require formal employment registration. At the level of firms, although avoiding taxation and regulation may lower barriers to entry, firms in the informal sector tend to have lower productivity, lack access to credit and organized markets, and cannot benefit from formal support and training programs. Finally, at the level of government, informality erodes the tax base by making it difficult to impose taxes on transactions, business revenue and personal income. It also generates knowledge gaps that can lead to challenges for business development and job creation programming. Although informality has sometimes been seen as a quick solution to tackling unemployment, it can have negative impacts on the structured and balanced growth of a job market.

207. Zambia's youth will require a broad array of interventions to help create jobs, rather than a narrow, one-size-fits all approach.

The changing nature of work due to automation and technological advancement means that youth must develop skills that are different from what previous generations brought to the labor market. Today's youth still need traditional cognitive skills but, given increased market connectivity and a faster pace of work, they will also need to develop strong behavioral and socioemotional skills, including conscientiousness, self-regulation, and self-confidence.¹³⁵ To create sustainable employment solutions, interventions for youth should in parallel address immediate bottlenecks such as access to land and financial services, as well as medium-term constraints such as low productivity and inadequate infrastructure. Project design should not simply include ad hoc participation mechanisms for rural youth, but also strive to create or capitalize youth organizations to strengthen their voice and agency and help ensure their needs are being met in a meaningful way.¹³⁶

¹³⁵ Filmer, Deon and Louise Fox (2014). Youth Employment in Sub-Saharan Africa. Africa Development Series. Washington, DC: World Bank.

¹³⁶ Trivelli, C., & Morel, J. (2020). "Rural Youth Inclusion, Empowerment, and Participation." The Journal of Development Studies.

208. The most successful activities to create jobs for rural youth use an integrated approach and leverage existing economic structures.

A common mistake in job creation programs is to focus only on specific support for young workers in areas suffering from a more generalized lack of economic opportunity. In places where agricultural productivity remains low and infrastructure is lacking, programming should instead try to support youth while promoting a broader process of rural transformation.¹³⁷ The German development agency, GIZ, recently completed a comparative analysis of some of its largest programs on rural youth employment promotion. The most relevant common success factors they identified included developing robust business models in partnership with the private sector, supporting employment opportunities in off-farm services, and implementing activities through existing local structures.¹³⁸ The study suggests that to achieve sustainable results, it is important that jobs programs take an integrated approach simultaneously considering labor demand, labor supply, and the promotion of efficient labor market matching. Another review of 65 articles on youth engagement in agri-business in Africa came to a similar conclusion, finding that the activities with the greatest impact used an integrated approach incorporating the diversity of the youths' aspirations and shared capabilities

while leveraging strong partnerships among rural communities, governments, youth organizations, and the private sector.¹³⁹

209. The development of the agribusiness sector could create significant opportunities for rural youth.

Zambia can be characterized as an economy with a relatively high level of structural transformation (large share of nonagricultural activity in GDP) and a low level of rural transformation (average agricultural value added per worker).¹⁴⁰ This suggests a strong opportunity for the creation of jobs in the agri-food sector, for example in input supply, aggregation, processing, and marketing.¹⁴¹ The development of this sector can help create opportunities for youth who often hesitate to take agricultural jobs due to unfavorable working conditions and low wages. Indeed, the off-farm labor patterns of rural African youth are already focused on wage work in the agri-food sector.¹⁴² A study of Bwacha village in Northern Province found that the majority of youth wanted to continue to reside in the village, but made reference to the fact that the larger town of Kasama was easily accessible by road.¹⁴³ By strengthening the ties between urban and rural economies, the development of the agri-food sector can help create jobs for rural youth unable to own farms, as well as allowing rural areas to benefit from the economic growth generated by cities.

137. IFAD (2019). Creating Opportunities for Rural Youth: Rural Development Report 2019.

138. GIZ (2020). "What Works in Rural Youth Employment Promotion?"

139. Yami, M., Feleke, S., Abdoulaye, T., Alene, A. D., Bamba, Z., & Manyong, V. (2019). "African rural youth engagement in agribusiness: Achievements, limitations, and lessons." *Sustainability*, 11(1): 185.

140. IFAD (2019). Creating Opportunities for Rural Youth: Rural Development Report 2019.

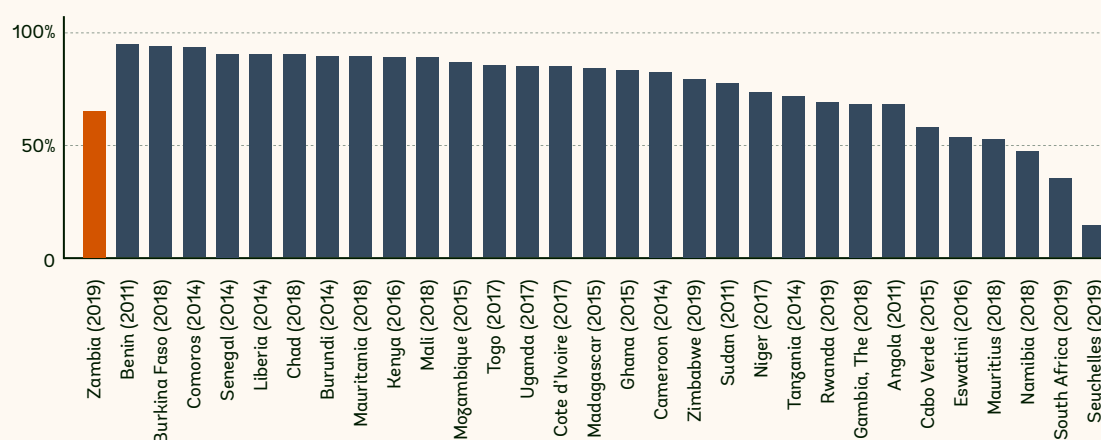
141. GIZ (2020). "What Works in Rural Youth Employment Promotion?"

142. IFAD (2019). Creating Opportunities for Rural Youth: Rural Development Report 2019.

143. Birch-Thomsen, T. (2016). "Rural youth in northern Zambia: Straddling the rural-urban divide." *Young Entrepreneurs in Sub-Saharan Africa*.



Figure 4.6: Informal employment as a share of nonagricultural employment (%)



Source: LFS 2019, World Development Indicators various years.

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ADDRESSING MULTIPLE CONSTRAINTS TO ECONOMIC INCLUSION

210. Economic inclusion strategies alleviate the constraints faced by specific groups to foster a stronger job market for all workers.

Economic inclusion programs aim to promote the gradual integration of individuals and households into broader economic development processes, with a focus on strengthening their resilience and future opportunities.¹⁴⁴ In principle, inclusive labor markets offer equal access and opportunity to all workers, regardless of endowments, geography, and demographic characteristics. Removing barriers to access is not only advantageous for individuals, but also helps promote productivity growth and market stability as workers are more efficiently matched with appropriate jobs and are given the opportunity to reach their full productive potential. Economic inclusion programs tend to target the poor given the difficulties they face in meeting their basic daily needs and their growing aspirations with respect to global economic growth. Nonetheless, a coherent and effective economic inclusion strategy should have as its primary focus the promotion of a strong and well-functioning labor market and include both poor and nonpoor beneficiaries. By identifying and lifting barriers that limit the advancement of specific groups, economic inclusion programming can benefit the entire population in the long run.

211. Effective jobs policies are needed to address the market failures that hamper positive economic transformations for poor people in low-income country settings.

The World Bank Jobs Diagnostics undertaken in IDA countries show that youth often do not transition quickly into paid work, and that young women in low-income countries often remain inactive and are much less likely to migrate from their place of birth for jobs in towns and cities. Young workers may be active in the traditional informal sector in self-employment but excluded from waged work in the faster-growing and more productive formal sectors of the economy. Women, youth, and people with lower education fare worse and earn less than older, educated men in nearly all the pilot Jobs Diagnostics. Yet the social and economic gains from better jobs are highest for young people, especially women (World Bank 2018). Jobs and economic inclusion interventions target specific barriers faced by identified groups. For example, employment and intermediation services can be provided when there is lack of adequate information about job opportunities and lack of information about skills of young applications by employers.

144. Andrews, C., et al. (2021). The State of Economic Inclusion Report 2021: The Potential to Scale. World Bank.


Table 4.1: Prevalence of negative labor market outcomes

GROUPS	% OF WORKING AGE POPULATION	LABOR FORCE INACTIVITY (% OF WORKING AGE POPULATION)	UNEMPLOYMENT (% OF LABOR FORCE)	LONG-TERM UNEMPLOYMENT (% OF UNEMPLOYED)	UNDER-EMPLOYMENT (% OF EMPLOYED)	POTENTIAL LABOR FORCE (% OF EXTENDED LABOR FORCE)	RELIANCE ON AGRICULTURAL EMPLOYMENT (% OF EMPLOYED)
YOUNG ADULTS (15-35)	46,9	46,9	18,9	71,8	6,4	40,7	22,8
ADULTS (36-64)	35,5	44	6,5	65,4	4,8	23,7	21,3
WOMEN	52,4	53,4	13,4	72,7	5,1	40	19,6
MEN	47,6	37,5	12,3	68,3	5,8	28,3	23,5
RURAL	53	53,3	14	70,2	7,2	48,1	44,2
URBAN	47	37,4	12	70,1	4,6	19,9	9,3
NO EDUCATION	7,6		13,7	67,7	8,3	51,6	41,1
PRIMARY EDUCATION	38,7	60,9	13,1	67,7	7,3	43,9	34,2
SECONDARY EDUCATION	47,9	43,4	13,2	72,6	4,9	27,8	16,9
TERTIARY EDUCATION	5,8	23,6	9,4	64,8	3,1	9,7	8,6



Source: Calculations based on data from LFS 2019

212. In Zambia, young adults, women, rural people, and those with low levels of education face disproportionately high risks of labor market exclusion. A close analysis of the most recent 2019 LFS data demonstrates the potential adverse labor market outcomes faced by subgroups within the population. Some of these demographic groups face an elevated risk with respect to many different negative outcomes at the same time. Young adults aged 15 to 35 face a level of risk for unemployment and long-term unemployment that is disproportionately higher than older people in the working age population (Table 4.1). Notably, 18.9 percent of young people in the labor force were at risk of unemployment, compared with only 6.5 percent of persons aged 36 to 64.

213. The risk of being in the potential labor force is much higher among young adults, women, and the rural population. “Potential Labor Force” refers to persons who were not actively seeking employment but did report being currently available for work, as well as persons who were seeking employment but were not currently available for work. Young adults were much more likely to be in this category (40.7 percent; Table 3.1) than older workers (23.7 percent), and women (40.0 percent) were more likely than men (28.3 percent). The gap was particularly large between persons in rural areas (48.1 percent) and those in urban areas (19.9 percent), possibly indicating a high level of discouragement and a perception that work is not available.


Table 4.2: Prevalence of negative labor market outcomes

GROUP	INACTIVITY IN LABOR MARKET	UNEMPLOYMENT	LONG-TERM UNEMPLOYMENT	HIDDEN UNEMPLOYMENT	UNDER-EMPLOYMENT	RELIANCE ON AGRICULTURE
YOUNG ADULTS	2,79	0,32	0,23	0,15		
WOMEN	3,18		0,13	0,88		
RURAL	2,6			1,14	0,14	0,84
LOW EDUCATION	2,6			0,67	0.06	0.27



Source: Calculations based on data from LFS 2019

214. Around 3.1 million Zambians between the ages of 15 and 35 years are either not active in the labor market or unemployed. Again, examining the same labor market outcomes as above, labor market inactivity is by far the most significant category in terms of absolute numbers of people (Table 4.2). Disaggregating by gender shows that 3.2 million women are inactive and disaggregating by location shows that 2.6 million people in rural areas are inactive. These are people who are in the working-age population but have no connection to the labor

market—they are neither in employment, education or training, nor are they considered to be unemployed (available and looking for work). Unemployment is a problem most acute among young adults, with 320 000 unemployed. This high number is potentially related to the stronger willingness of this group to continue looking for work rather than leave the labor force. There is considerable overlap between the rural population and the population with low levels of educational attainment, and it is thus unsurprising that the number of people in each at-risk category is similar for these two groups.

4.4.1. Identifying the overlapping constraints faced by women in the labor market

215. Women in Zambia face multiple constraints with respect to the job market, including social norms with respect to marriage and childbirth, access to land, the risk of violence, and negative health outcomes. According to the World Economic Forum Global Gender Gap Report 2020, Zambia is ranked 5th in Sub-Saharan Africa, behind only Rwanda, Namibia, South Africa, and Burundi.¹⁴⁵ Some of Zambia's gender parity indicators are quite promising with respect to other countries in the region. For example, the gap in formal financial inclusion has narrowed significantly, with 71.2 percent of men currently financially included compared to 67.9 percent of women.¹⁴⁶ Nonetheless, many constraints remain and Zambia's rank of 45 out

of 153 countries surveyed for the Global Gender Gap Report indicates that women still disproportionately face barriers in terms of educational attainment, economic participation, and political empowerment. Even though Zambia has signed the International Convention on Maternity Protection (ILO C. 183), it has not been domesticated and maternity protection remains a privilege of women in formal employment. Governed as an employer liability scheme, it may even function as a disincentive against hiring women. Women in the informal economy or in unemployment have no maternity benefits, as no noncontributory maternity protection scheme currently exists in Zambia (but could be created under the SCT as highlighted in Chapter 2 on the desire to cover mothers under the SCT).

¹⁴⁵. Crotti, R., Geiger, T., Ratcheva, V., & Zahidi, S. (2020). Global Gender Gap Report 2020. World Economic Forum.

¹⁴⁶. FSD Zambia (2020). FinScope 2020 Survey: Top Line Findings.

216. Women are much more constrained than men by expectations of childbirth and child rearing, which creates a set of constraints with respect to the job market.

Zambia remains one of the countries with the highest fertility rates in the world, with a total fertility rate of 4.6 in 2018.¹⁴⁷ The mean age of first marriage in Zambia is 18.7, and over 75 percent of women are married before the age of 21.¹⁴⁸ Early age at first marriage is associated with early pregnancy, leading to higher maternal mortality and infant mortality rates. An analysis of the DHS 2018 data finds a strong association between level of education and later marriage. For instance, women with a secondary education are more than twice as likely to marry after age 21 than women with only a primary education. Women in Zambia continue to carry a disproportionate burden with respect to child rearing, domestic labor, and caring for family members who are ill. As such, women tend to be time poor relative to men of working age in their households. Being consigned to the domestic sphere also reduces women's access to political and social capital, and prevents them from developing business relationships that could be beneficial for advancement in the job market.

217. Although women are equally involved in agricultural labor, strong gender norms impact the choice of crops being cultivated.

Men in Zambia are more likely to be the main sellers of profitable crops such as maize, whereas crops conventionally associated with women are less profitable, such as tomatoes or groundnuts.¹⁴⁹ Many of these garden crops typically sold by women are more perishable, and thus female sellers are exposed to greater business risk. Typical income-generating activities that are more accessible to men than women include selling charcoal, making and selling bricks, and

moneylending. Some men, interviewed as part of a 2017 assessment of the Girls Education and Women's Empowerment and Livelihood (GEWEL) program, stated that if women were successful in their businesses it could lead to promiscuity and destroy marriages.¹⁵⁰

218. Women in Zambia tend to have less access to productive agricultural land.

Data from 35 districts across Zambia collected in 2011 showed female-headed households had smaller average farm sizes (1.51 ha) than male-headed households (2.17 ha) and had fewer livestock units (2.59 versus 5.37). The difference in resource endowment led to a significant gap in maize-selling, with male-headed households, 11.8 percent points more likely to sell maize than female-headed households.¹⁵¹ These differences in endowment can be partially explained by customs of land tenure and inheritance. Even though many tribes in Zambia are both matrilineal and matrilocal, a woman's inheritance of land is often mediated through male kin, with male family members often officially receiving the allotment and taking control of productive activities.¹⁵² Despite efforts to ensure the equality of access to land through constitutional and legal reforms, significant cultural barriers remain for women in accessing productive land. It is estimated that 60 percent of land in Zambia still falls under a customary land tenure system in which tribal chiefs apportion land to village headmen, who then divide it among household heads.¹⁵³ Beyond quantity of land, there is also evidence that women are systematically allocated less fertile plots to farm. A study of soil samples from 1,573 farms in Zambia concluded that women were systematically allocated less fertile land, and that the 23 percent measured deficit in yields for women farmers could not be attributed to a lack of farming ability.¹⁵⁴

147. World Bank databank.

148. Phiri, M., & Mulemena, D. Explaining Factors Associated with Age at First Marriage in Zambia: Evidence From 2018 DHS Data. 1(8).

149. Poulin, M., Bomuhangi A. (2017). "Girls' Education and Women's Empowerment and Livelihoods (GEWEL) Project, Zambia: Qualitative Study." World Bank.

150. Ibid.

151. Simtowe, F., & De Groote, H. (2020). Seasonal participation in maize markets in Zambia: Do agricultural input subsidies and gender matter? Food Security, 1-15.

152. Caron, C. M. (2018). Pursuing gender-transformative change in customary tenure systems: Civil society work in Zambia. Development in Practice, 28(7), 872-883.

153. Burke, W. J., Li, S., & Banda, D. (2018). Female access to fertile land and other inputs in Zambia: why women get lower yields. Agriculture and Human Values, 35(4), 761-775.

154. Ibid.

ES	219. Risks of violence are also greater for women, which can have an impact on workforce participation and human capital accumulation.	220. Women tend to face different health challenges from men and a disproportionate access to health care.
I	Rates of sexual and gender-based violence (SGBV)	Mechanisms that disproportionately affect the health of women
II	and intimate partner violence (IPV) are higher	in Zambia include proximate factors such as
III	for women than for men. Not only does violence	level of education, a lack of health information,
IV	itself have direct physical and psychological	and rates of unemployment and poverty, as
V	impacts, but the threat of violence, controlling	well as immediate factors including maternal
	behaviors, the need to use coping strategies, and	morbidity and mortality, poor nutrition, and
	other second order effects can all have negative	SGBV. ¹⁵⁹ The maternal mortality ratio for
	consequences for the participation of women	the 7-year period before the 2018 ZDHS is
	in society and in the workforce. For example, a	estimated at 252 maternal deaths per 100,000
	study of the DHS 2014 data found a significant	live births, and maternal deaths account for 10
	association between HIV prevalence and women	percent of all deaths among women age 15-
	experiencing emotional and/or controlling	49. ¹⁶⁰ Only 3 percent of women in Zambia have
	violence with their intimate partners. ¹⁵⁵ Physical	access to private health insurance and out-
	violence is a common experience for women	of-pocket health care expenses can be high
	in Zambia, with 36 percent of women aged 15	in the case of a health shock. ¹⁶¹ Due to social
	to 49 having experienced physical violence	norms around child rearing and caring for ailing
	at least once since age 15, and 18 percent of	relatives, the burden of such expenses can fall
	women experiencing violence over a one-year	disproportionately on women.
	period. ¹⁵⁶ The likelihood of experiencing physical	
	violence is higher among women who are	
	employed (41 percent) than among those who	
	are not employed (30 percent), ¹⁵⁷ suggesting	
	that women face additional risks that could	
	potentially represent a barrier for them joining	
	the workforce. The Government of Zambia has	
	enacted legal reforms to help protect women	
	and girls, notably the Anti-Gender-Based	
	Violence Act of 2011. Nonetheless, changing	
	the sociocultural attitudes at the root of SGBV	
	and intimate partner violence (IPV) will be more	
	difficult to change. In a study of data from a	
	psychotherapeutic intervention in Lusaka, a large	
	majority of both men (78.1 percent) and women	
	(78.5 percent) indicated overall acceptance of	
	violence in intimate relationships. ¹⁵⁸	
		221. The chapter now turns to how the existing JEI sector in Zambia has been set up, how it has performed over the last decade, and to what extent it is able to address the constraints facing vulnerable parts of the population.

155. Beres, L. K., Merrill, K. G., McGready, J., Denison, J. A., Schwartz, S., Sikazwe, I., & Decker, M. R. (2020). Intimate partner violence polyvictimisation and HIV among coupled women in Zambia: Analysis of a population-based survey. *Global public health*, 15(4), 558-570.

156. Zambia Statistics Agency, Ministry of Health, ICF (2020). Zambia Demographic and Health Survey 2018.

157. Zambia Statistics Agency, Ministry of Health, ICF (2020). Zambia Demographic and Health Survey 2018.

158. Fine, S. L., Kane, J. C., Murray, S. M., Skavenski, S., Munthali, S., Mwenge, M., & Murray, L. K. (2019). The role of violence acceptance and inequitable gender norms in intimate partner violence severity among couples in Zambia. *Journal of interpersonal violence*, 0886260519876722.

159. Ngoma, C. M. (2016). Factors influencing women's optimum health in Zambia. *Journal of Healthcare Communications*, 1(4), 30-36.

160. Zambia Statistics Agency, Ministry of Health, ICF (2020). Zambia Demographic and Health Survey 2018.

161. Mulenga, J. N., Bwalya, B. B., & Gebremeskel, Y. (2017). Demographic and Socio-economic determinants of maternal health insurance coverage in Zambia. *Epidemiology, Biostatistics and Public Health*, 14(1).

4.5.

THE JEI SECTOR: POLICY FRAMEWORK AND PROGRAMS

222. As mentioned earlier, there is a significant number of vulnerable households in Zambia and these households face multiple constraints. This group comprises people with limited access to essential services necessary for human survival including health, education, water and sanitation. Poor nutrition also erodes human capital potential, reinforcing the intergenerational transfer of poverty and keeping these households trapped in vicious circles of poverty. One of the binding constraints perpetuating poverty and vulnerability in Zambia includes unemployment and underemployment. People in rural areas are underemployed and underpaid for their labor; workers in urban areas earn low wages and lack social protection. Female-headed households, child-headed households, persons with disabilities, orphaned children, the chronically ill and older persons, currently fall in this category.¹⁶²

223. To address poverty and vulnerability, the Government of Zambia has developed a strong policy framework centered around job creation and economic diversification. The Economic Diversification and Job Creation cluster was created to carry out the mandate of the similarly named ‘Economic Diversification and Job Creation’ strategic area from the Seventh National Development Plan (7NDP) policy paper. The paper outlines interventions supporting those poor households that have the capacity for self-sustenance through livelihood empowerment programs.¹⁶³ The Government of Zambia’s Vision 2030 also necessitates safeguarding the poor and the vulnerable via labor market programs. As per Vision 2030, Zambia aims to become a prosperous middle-income country by the year 2030. Vision 2030 contains ambitious employment-related goals,

such as maintaining the unemployment rate to below 10 percent of the total labor force by 2030; supporting the proportion of the labor force operating in an environment in which labor laws are respected and safeguarded to reach 90 percent by 2030; having an efficient and effective Labor Market Information System in place by 2015; and ensuring that the minimum wage is commensurate with the prevailing living wage.

224. The Government of Zambia has also committed to international goals to introduce programs to moderate income inequalities. Zambia has joined the rest of the world in combating poverty through Sustainable Development Goals (SDGs). The SDGs are part of the 2030 Agenda for Sustainable Development which seeks, among other things, to end poverty and reduce vulnerabilities by 2030. Related programs are expected to focus on promotion of livelihood potential among poor and vulnerable populations, with emphasis on provision of finance, agricultural inputs, and entrepreneurship skills, including public works to promote community infrastructure and assets. Special attention is to be on reducing poverty and vulnerability among women, the youth, the older persons, and persons with disability.¹⁶⁴

225. The JEI sector in Zambia encompasses programs that seek to provide support to households and groups that lack sufficient capacity to generate adequate and reliable income to support their livelihoods. These individuals and households have limited capacity i.e. human and social capital, as well as physical, financial and/or natural resources. In Zambia, specific JEI programs include Food Security Pack, Women Empowerment Fund, Functional Literacy and Skills Training,

¹⁶². Ministry of National Development Planning 2017. 7th National Development Plan (2017-2021)

¹⁶³. Ibid.

¹⁶⁴. Ibid.

ES	Community Self Help Initiatives and Micro Bankers Trust. ¹⁶⁵ Some key objectives for these JEI programs include: i) enhancing access for poor and vulnerable groups to productive resources and skills; ii) promoting employment opportunities and income-generating activities for the unemployed and other vulnerable groups; and iii) increasing livelihood potential among vulnerable populations to meet their yearly food and nutrition security requirements.	The Ministry of Labour and Social Security (MLSS), Ministry of Commerce, Trade and Industry (MCTI), Ministry of Agriculture (MOA), Civil Society Organizations (CSOs) and Non-Governmental Organizations (NGOs) were also assigned responsibilities to provide for needs of the vulnerable groups. ¹⁶⁷
I		
II		
III		
IV	<p>226. The JEI pillar is broadly categorized into three main program groups:</p> <p>I. Livelihood and Empowerment: Specific programs include Supporting Women's Livelihood (SWL); Women Economic Empowerment Fund; Youth Development Fund; Village Banking; and the Skills Development Fund;</p> <p>II. Agriculture Support: Includes the Food Security Pack and the Emergent Farmers Support Fund but excludes FISP as the program is too big and distorts the funding picture;</p> <p>III. Other Jobs and Economic Inclusion: Includes self-help programs, livestock and aquaculture development, other women and youth development programs, post-graduate scholarships and so on.¹⁶⁶</p> <p>227. Given fragmentation, the government announced plans to establish a National Coordination Unit (NCU) at the Cabinet Office but this is yet to materialize. The NCU as lead institution, would supervise the development, implementation and integration of social protection programs (across all three SPJ pillars) and financing. The line ministries, statutory bodies, civil society organizations, cooperating partners, and the private sector would be tasked with implementation of specific social protection programs. As per the plan, the Ministry of Community Development and Social Services (MCDSS) would train community-based individuals in livelihood and empowerment service delivery, while the Ministry of Gender (MOG) would complement the provision of empowerment and livelihoods opportunities to vulnerable women groups.</p>	<p>228. As a result, the main institutional mechanism for coordination across JEI programming rests with the Economic Diversification and Job Creation Cluster under the Ministry of National Development Planning. The Cluster comprises the Ministries of Agriculture; Commerce, Trade and Industry; Energy; Finance; Fisheries and Livestock; Housing and Infrastructure Development; Labor and Social Security; Mines and Mineral Development; Tourism and Arts; Transport and Communications; Water Development, Sanitation and Environmental Protection; Works and Supply; and Youth, Sport and Child Development. The Cluster is largely informal in its mandate. Other ministries with job programs include the Ministries of Foreign Affairs; Higher Education; and National Development Planning.</p> <p>229. JEI programs can also be categorized into supply-side, demand-side and intermediation programs. Supply-side programs address the improvement of skills, while demand-side programs aim to promote job creation. Intermediation programs alleviate labor market frictions by connecting employers with job seekers. In Zambia, all three program types are used to improve labor market outcomes. Demand-side programs (such as Village Banking) focus on industry and self-employment, while supply-side interventions (such as Functional Literacy) cover technical and entrepreneurship skills as well as digital competencies. The Government of Zambia has introduced many jobs and economic inclusion programs which address challenges on the supply and demand side of the labor market but are lacking complementary intermediation programs to address constraints related to labor force entry faced by women and youth. Some of these programs are described in Box 8.</p>
V		

¹⁶⁵. MCDSS (2014). National Social Protection Policy. Ministry of Community Development and Social Services, June 2014

¹⁶⁶. Spending on and patterns in broader labor market activities are also examined, such as those related to decent work programs labor inspections to enforce labor law and standards, etc. There are no specific programs under this grouping.

¹⁶⁷. Ibid.



BOX 8: Selected programs under the JEI pillar

Women Economic Empowerment Fund:

Implemented by the Ministry of Gender, the Women Economic Empowerment Fund is part of the broader women empowerment programs focused on uplifting the socioeconomic well-being of women and girls through skills development, entrepreneurship training and provision of grants and/or equipment to women groups or cooperatives in order to reduce their vulnerability.

Supporting Women's Livelihoods (SWL): The SWL program offers training and start-up capital, as well as savings and mentoring support. SWL is a component of the Girls Education and Women's Livelihood and Empowerment Project, and is implemented by the Ministry of Community Development and Social Services.

Youth Development Fund (YDF): The overall objective of the YDF is to lend finance to viable projects proposed by young entrepreneurs as well as enable the youth to benefit from associated training and mentorship services. The YDF is therefore aimed at supporting the growth of sustainable youth-led small and medium enterprises (SMEs) into the private sector for wealth and employment creation.

Food Security Pack: Food Security Pack (FSP) is a Social Safety Net program that targets poor and vulnerable but viable farming households, especially female-headed households, with agricultural inputs and related social services to ensure household food security and nutrition at household and community level. Initiated by the Zambian Government in 2000, the FSP consists of a package of inputs sufficient to cultivate 0.5 ha of maize, 0.25 ha of legumes, and, in some, cases chicken and goats. Eligibility of beneficiaries is based on having access to less than 1 ha of land, and the ability to work but having no gainful employment. Furthermore, eligible households must either be headed by a female or have orphans or children, or a child

head or households headed by persons with disabilities. There is an obligation to make a partial repayment of the benefit in terms of the share of the yield from the pack. The program presently covers about 80,000 vulnerable but viable farmers nationwide. Plans are underway to increase the number of beneficiaries to over 288,000 in 2021.

Village Banking: Village Banking is a micro-credit program aimed at providing business skills training and collateral-free loans at agreed interest rates to poor but viable individuals, often women, who are engaged in or would want to engage in a business enterprise but lack the finances to do so. Additionally, the model includes a social fund which acts as some form of insurance for group members and is managed by the group to assist members in need of money in times of unexpected emergencies. This fund is often given as a grant to cushion members in times of crisis such as illness or funerals within the household. It is also part of the Ministry of Community Development and Social Services (MCDSS) efforts to scale up the women empowerment agenda.

Skills Development Fund: Introduced in 2017, the Skills Development Fund is aimed at enhancing the provision of quality and equitable access of skills in both the formal and informal sectors. The fund is intended to provide sustainable financing for the technical education and vocational training (TEVET) system to ensure development and supply of skilled persons to the Zambian economy. It is collected from businesses at 0.5 percent of their payroll. To operationalize this fund, the Skills Development Levy Act No. 46 of 2016 was passed and enabled the Ministry of Finance to collect levies from formal businesses through what is known as the Skills Development Levy. The fund is administered by the Ministry of Higher Education.

4.5.1. Budget allocations and expenditure

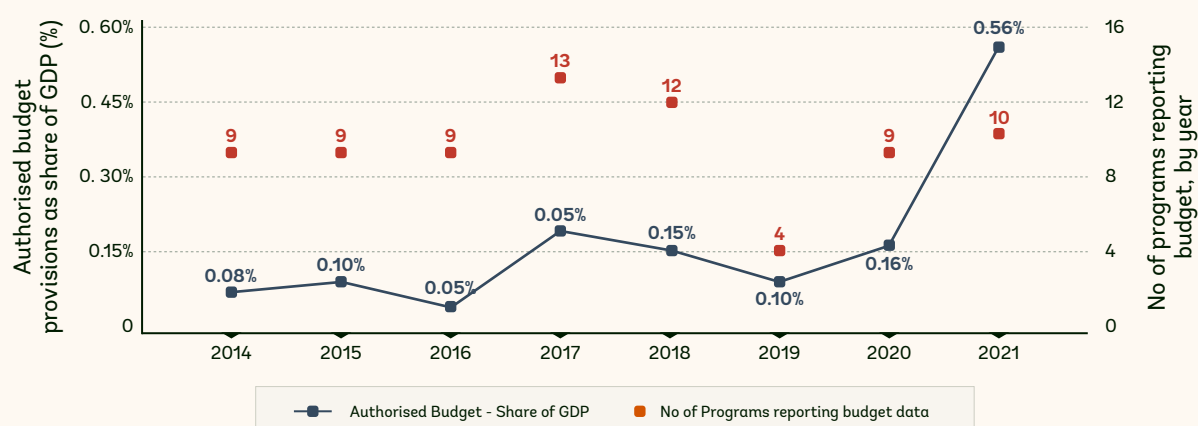
230. Similar to results in the other pillars of this PER, the spending data across all JEI programs is inconsistent; however, the recent budget trends show interesting insights. The spending on JEI programs is gleaned from 9 ministries and 1 agency. These are as compiled in the audited annual financial reports of the Ministry of Finance for the period 2014-2018 and Budget Estimates for the period 2019-2021. Spending trends focus on a five-year span between 2014 and 2018 for which both budget allocation and actual expenditure data is available. The JEI pillar is perhaps the most diverse and heterogeneous pillar with programs and activities from over 270 budget lines. Though there are over 270 budget lines, the PER could distinctly identify only 9 programs, while the rest are primarily activities with no clear link to programs. The programs identified are Women Economic Empowerment Fund, GEWEL—Supporting Women’s Livelihood, Youth Development Fund, Village Banking, Youth Innovation Fund, Skills Development Fund, Technology Development Fund, Food Security Pack and the Emergent Farmers Support Fund. There is little consistency in reporting over time for most budget lines. Of the 9 identified programs, only 2 have data for the entire 2014-2021 period; 2 have unreported data for 1-3 years; 4 come onstream in 2017 and 1 in

2018. Of the 4 programs that are reported from 2017, 1 program is only reported in 2017 and 2018 and has no information thereafter. The chapter explicitly highlights these differences in the following analysis so as to not overstate fluctuations.

231. Budgetary allocations increased marginally for JEI programs between 2014 and 2021 but averaged the lowest among all the pillars at about 0.18 percent of GDP. Overall, the authorized budget provision for JEI programs increased from K137 million in 2014 to K2,204 million in 2021. In terms of the share of total GDP, the JEI pillar budget increased sluggishly from 0.08 percent of GDP to 0.56 percent during this period (Figure 4.7). In particular, the budget allocation hit the peak in 2017 to 0.20 percent of GDP due to the addition of the SWL program budget. But the budget declined thereafter owing to the eroding fiscal space. With the COVID-19 crisis in 2020, budgetary allocations rose substantially in 2021. This massive increase is attributed to a ten-fold increase in the allocation to FSP from K100 million in 2020 to K1.1 billion in 2021. In the absence of comparable spending data for JEI programs from other countries, it is not possible to say if Zambia fares poorly or better.



Figure 4.7: Slow increase in budget allocation for Jobs and Economic Inclusion (2014-21)



Note: Budget allocations refer to authorized budget (approved and supplementary) provision for 2014-2018; for 2019-2021, it is assumed the authorized budget equals the approved budget. No imputations are done for missing years.



Source: MOF data, with definitions and scope as per the NSPP.

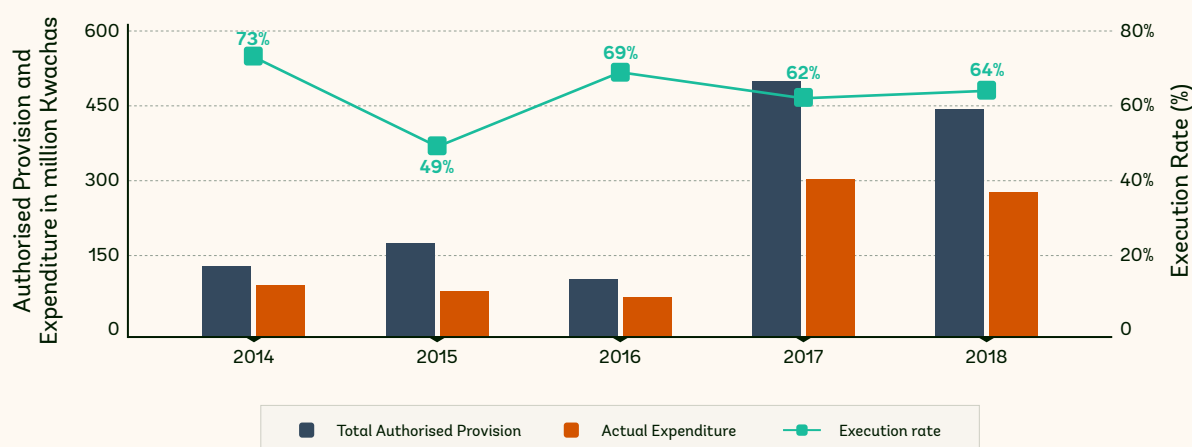
232. The budget allocation figures are, however, misleading when compared to the actual expenditure which is substantially below the allocations. The execution rate (defined as the share of actual spending in the total authorized budget provision) dropped substantially from 73 percent in 2014 to 49 percent in 2015 due to low expenditures particularly in YDF and FSP programs (Figure 4.8). In 2016, the execution rate improved to 69 percent and continued to be in the same range till 2018. Overall, during the period 2014-2018, the execution rate averaged 63 percent, just under two-thirds of the authorized budget.

233. Budget allocation by subgroups helps unpack the spending numbers and provides insights on the government's priorities. To make sense of the government spending on numerous programs, spending numbers are assessed across three subgroups defined above: Livelihood and Empowerment, Agricultural Inputs, and Other Jobs and Economic Inclusion. Between 2014 and 2018, the livelihood and empowerment programs accounted for an average of 60 percent of the total budget allocation. This was followed by agriculture inputs which took up an average of 25 percent over the same period. Other JEI programs averaged 15 percent of the total budget provision (Figure 4.9).

234. Livelihood and empowerment programs increasingly took up a significant share of the JEI budget. The budget share of livelihood and empowerment programs increased from 40 percent in 2014 to 62 percent in 2018. In 2017, the inclusion of the Skills Development Fund and SWL programs and huge budgetary allocations to these programs increased the share of livelihood and empowerment subgroup to 87 percent. However, its share reduced significantly to 62 percent in 2018 due to the large reduction in SWL's budget. Though, this seems to be likely an issue with accounting methods, as the program had no real budget cuts and in fact, expanded to more districts in 2018. The budget of agricultural inputs, the second largest subgroup, reduced significantly over the years only to increase again in 2018. While the livelihood and empowerment group saw a steady increase, the budget provision of agricultural inputs declined from 37 percent in 2014 to 9 percent in 2017, only to increase again in 2018 to 32 percent. This change is largely driven by FSP's budget over the years. The spike in the share allocated to agricultural inputs in 2021, at 50 percent of the overall sector budget, is driven entirely by a tenfold increase in allocations to FSP.



Figure 4.8: Significantly lower spending across years (2014-18)

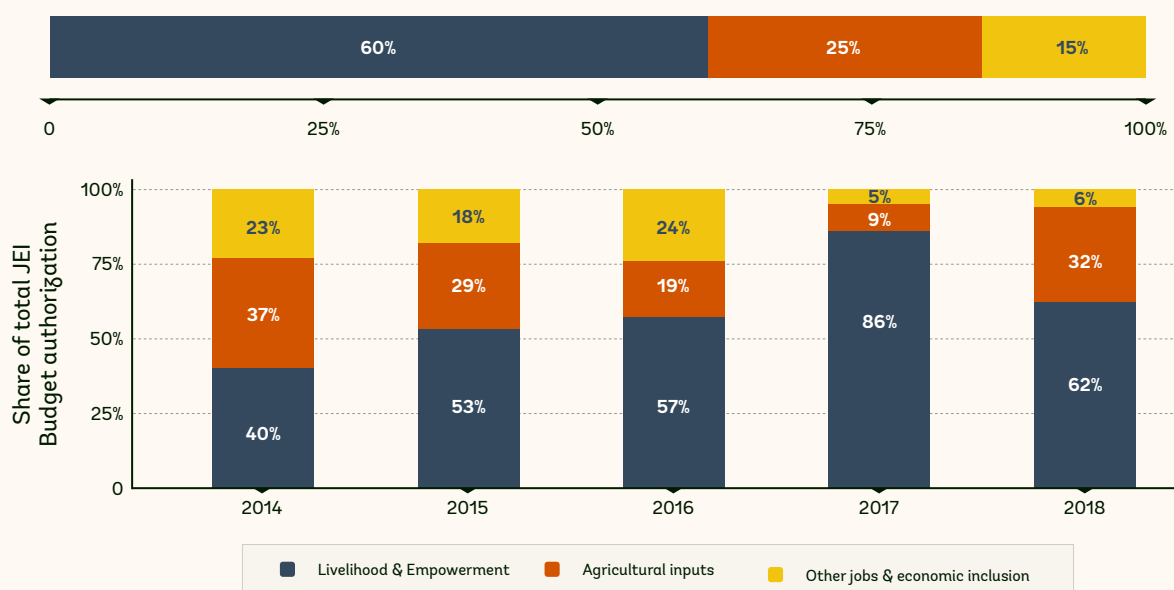


Note: Execution rate is defined as the share of actual spending in the total authorized budget (approved and supplementary) provision. Actual expenditure data is available only for 2014-18. For the years 2017 and 2018, actual expenditure data was missing for the SWL program. Since the project is funded by the World Bank and fully operational during the period, 100 percent expenditure is assumed for both years. In absence of this assumption, execution rate drops to 35 percent for 2017 and 63 percent for 2018.



Source: MOF data.

Figure 4.9: Composition of the JEI pillar budgets by broad categories, average and year (2014-18)



Note: Both average calculation and annual distribution use budgetary provision data which is the sum of budget allocation and supplementary estimates or savings declared.

Source: MOF Data

235. There is a relatively small share allocated to other JEI programs, at an average of 15 percent over the period. The absence of any significant labor market and employment program is shown by the small share of the other JEI subgroup. This is despite the fact that this category has the largest number of programs. Examples include the Decent Work Promotion program, launched by ILO in 2007 with an aim to achieve full and productive employment and decent work for all in Zambia, received only K3.8 million on average during the five-year span. Another program in this subgroup, “Enforcement of Labour Laws”, which is managed by multiple departments across provinces, received K1.4 million on average during the same period.

236. No single program had consistent expenditure over this period which points to the inefficiencies in spending. Apart from the weak fiscal management and declining growth, as discussed in the Introduction chapter, the sheer number of programs with similar objectives and target groups across different line ministries likely explains the missing budget allocation and low execution rates. Even for FSP, which is the

one of the largest JEI programs in terms of budget allocation, the execution rate varied from as high as 93 percent in 2016 to 36 percent in 2018. Another example of budgetary inadequacies is reflected in the massive allocation of K236 million to a newly launched Skills Development Fund program in 2017 of which only K73 million was spent, a mere 31 percent.

237. The spending inadequacies also reflect data gaps in that the actual spending for programs was not reported. The budget lines are missing over the years for programs such as World Bank-financed Supporting Women’s Livelihood intervention under the GEWEL Project, the Ministry of Higher Education’s Youth Development Fund and the Technology Development Fund. Notwithstanding the nonreporting, financing of JEI remains inadequate and unpredictable; it is clear that some budget lines simply do not get funded, while others are too small. This is the case with the women-targeted Women Economic Empowerment Fund and Village Banking. Funding to YDF has shrunk drastically over the years, owing to the suspension of the program in 2019.

4.6.

PROGRAM DESIGN AND EFFECTIVENESS

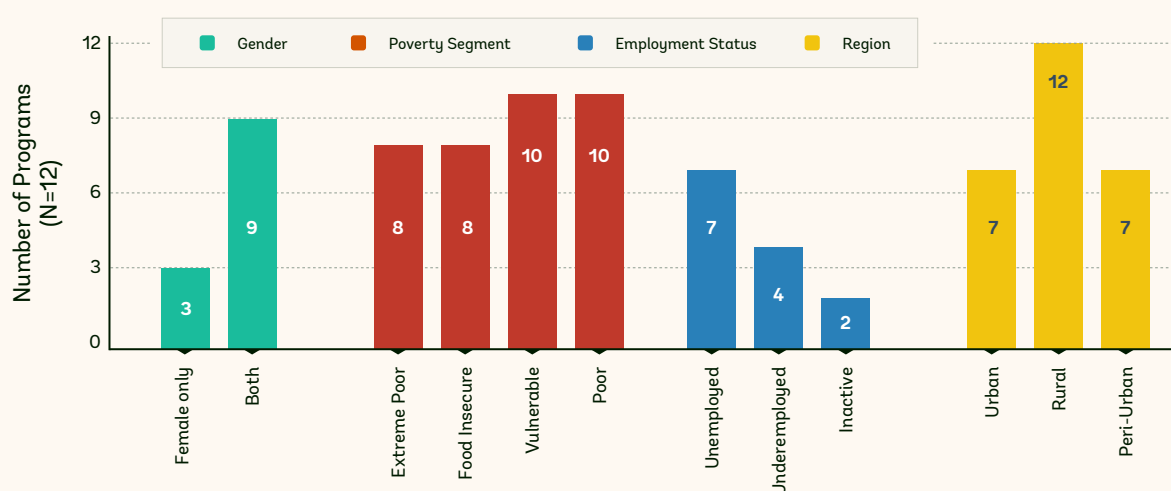
Program Design

238. As is the case for the other pillars analyzed in this PER, JEI programs generally aim to target poor and vulnerable populations, with a strong focus on rural areas. Figure 4.10 presents a summary of the target groups for twelve JEI programs from landscape survey of programs operating in the sector at the end of 2020. All data presented in relation to the targeting of these programs is self-reported. Ten out of twelve programs target the poor and vulnerable, while eight programs target the extreme poor and insecure. In terms of Gender, three programs i.e. Women Empowerment Programme, GEWEL, and Village Banking exclusively target women while all the other programs are designed to benefit both genders. Most programs also focus on providing job opportunities to unemployed and a few programs target underemployed and inactive labor force. While all the programs are implemented in rural areas, seven programs also target urban and peri-urban areas.

239. Most JEI programs provide production support as cash grant or asset transfer along with Skills Training and market linkages (Figure 4.11). While livelihood and empowerment programs such as Women Empowerment and SWL provide cash grants to start small businesses, agricultural input programs such as FSP provide asset transfers to the beneficiaries. Most programs provide life and business skills training as part of the intervention package; however, some labor market programs such as Community Skills Development offer On the Job and Vocational Training as well as employment intermediation services. All livelihood and empowerment programs facilitate market linkages, and some provide extension services, whereas the agricultural input programs enable access to markets through formation of producer groups.



Figure 4.10: Summary of target groups for Jobs and Economic Inclusion Programs



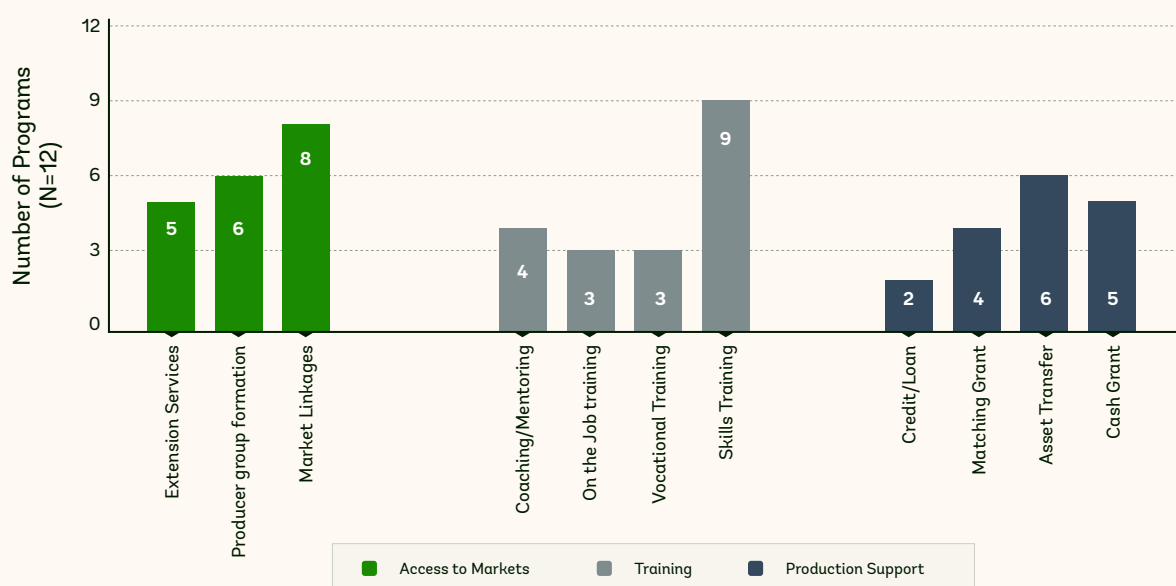
Note: For Gender, data was collected across three categories i.e. 'male only', 'female only', and 'both', but respondents selected 'both' for all the programs. Poverty segments and Employment Status are defined according to ZamStats definitions.



Source: World Bank SPJ PER Landscape Survey



Figure 4.11: The most common interventions across programs



Note: Intervention data is collected across 15 categories: Life/Business Skills Training; Market linkages; Asset/ input transfer; Producer group formation; Lump sum cash grant; Extension services; Coaching/Mentoring; Matching grants; Empowerment Group formation; Vocational Skills Training; Savings group formation; On-the- job training; Loan/ Credit; Employment Intermediation; and Other. Categories are clubbed to present the broader objectives of the programs.



Source: World Bank SPJ PER Landscape Survey



Table 4.3: Types of training across programs

PROGRAM NAME	TRAINING TYPE	TRAINING CONTENT
Functional Literacy	Basic Life Skills	Reading, writing and basic arithmetic.
Community Skills Development, Village Banking	Vocational Skills	Carpentry, tailoring and designing, home management and catering, general agriculture, metal fabrication, bricklaying, and entrepreneurship.
Supporting Women's Livelihood	Entrepreneurial Skills	Context-specific training on how to start an economic activity, mentoring and peer support, and help with setting up savings clubs.
Food Security Pack	Agricultural Skills	Households are taught how to increase crop yield using the agricultural inputs they are given.



Note: The landscape survey had three training categories: Life/ Business Skills Training, Vocational Skills Training, and On-the-job training. Based on the training curriculum Business Skills Training is further sub divided into Entrepreneurial and Agricultural Skills.



Source: World Bank SPJ PER Landscape Survey

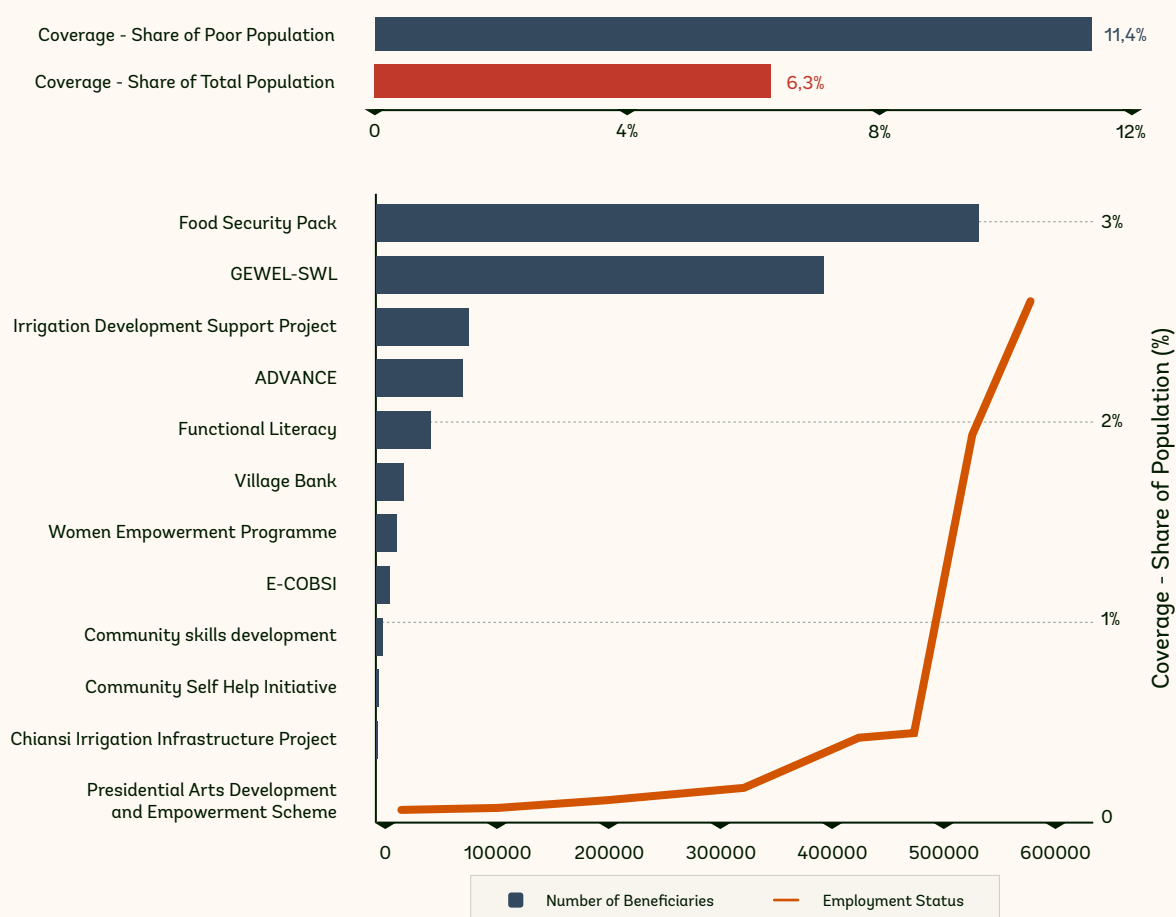
240. JEI programs offer a diverse set of trainings based on a number of different program objectives and designs. As outlined in Table 4.3, the training pedagogy is carefully curated for programs with different purposes. While programs like Functional Literacy focus on building basic life skills such as reading and writing, more complex programs such as SWL design training to improve entrepreneurial skills in addition to facilitation of savings group formation. Some community driven programs emphasize building vocational skills such as carpentry and metal fabrication to improve livelihoods.

Coverage

241. Overall coverage of JEI programs is modest, and most programs have not been significantly scaled up. With a little over a million beneficiaries, JEI programs cover six percent of the total population in Zambia. Since the majority of the programs are targeted to the poor, the coverage is only 11 percent of the poor (at national poverty line) (Figure 4.12). JEI programs tend to be relatively small and so far, only two programs have scaled i.e. FSP and SWL with 500,000 375,000 beneficiaries respectively. Both programs are currently active across all provinces. In the absence of these two programs, all the other programs combined cover a little over 1 percent of the Zambian population.



Figure 4.12: Overall and program level coverage of Jobs and Economic Inclusion programs



Note: Beneficiaries numbers are cumulative till 2019 and 2020 (wherever available) and include both direct and indirect beneficiaries. Population projections from UN prospects are used for 2019 to estimate the coverage as a share of total population. It is assumed that there is no overlap of beneficiaries across programs which might not be true; therefore, the coverage could be overestimated.



Source: Administrative Survey.

4.7.

PROGRAM PERFORMANCE

242. This subsection assesses the performance of SWL on four key parameters—coverage, targeting, adequacy and impact. For FSP, the subsection uses limited existing literature to assess its performance. Due to the limited availability of data, it was not possible to do similar analysis for other programs.

4.7.1. Supporting Women's Livelihood

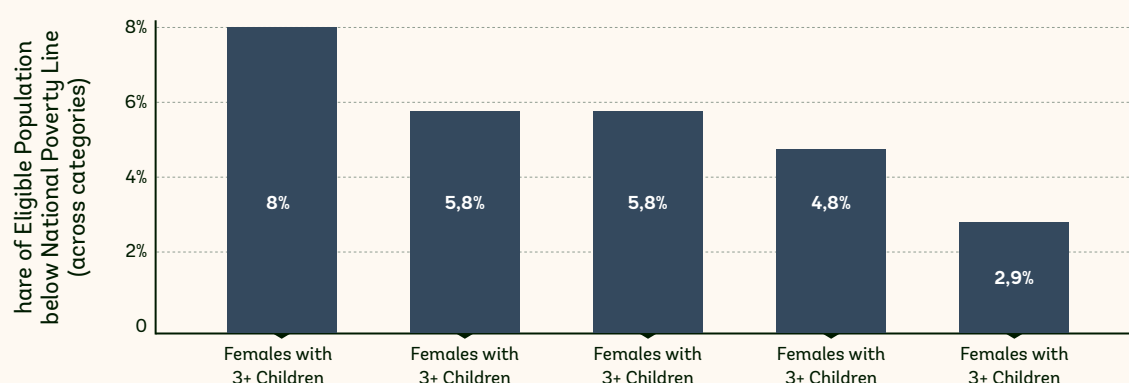
Coverage

243. The SWL program is a flagship women's economic empowerment program with strong potential to scale. Launched in 2015 with financing from the World Bank, the SWL program currently reaches out to 75,000 unique female beneficiaries or 375,000 household members. While most JEI programs operate in urban, peri-urban and rural areas, SWL is the only program to focus exclusively on rural areas. Initially, the program targeted extremely poor women with

more than one child and those that do not benefit from SCT. However, in recent years the program has evolved in response to evidence, policy, and need to focus solely on women from SCT households. Figure 4.13 compares the current caseload of SWL to different eligibility criteria to give a sense of the potential to scale. For example, assuming that the current caseloads target all women in SCT households, the program needs to scale 17x to cover all the eligible females.



Figure 4.13: Share of coverage of eligible poor population by categories: Evidence that there is significant potential to scale up coverage



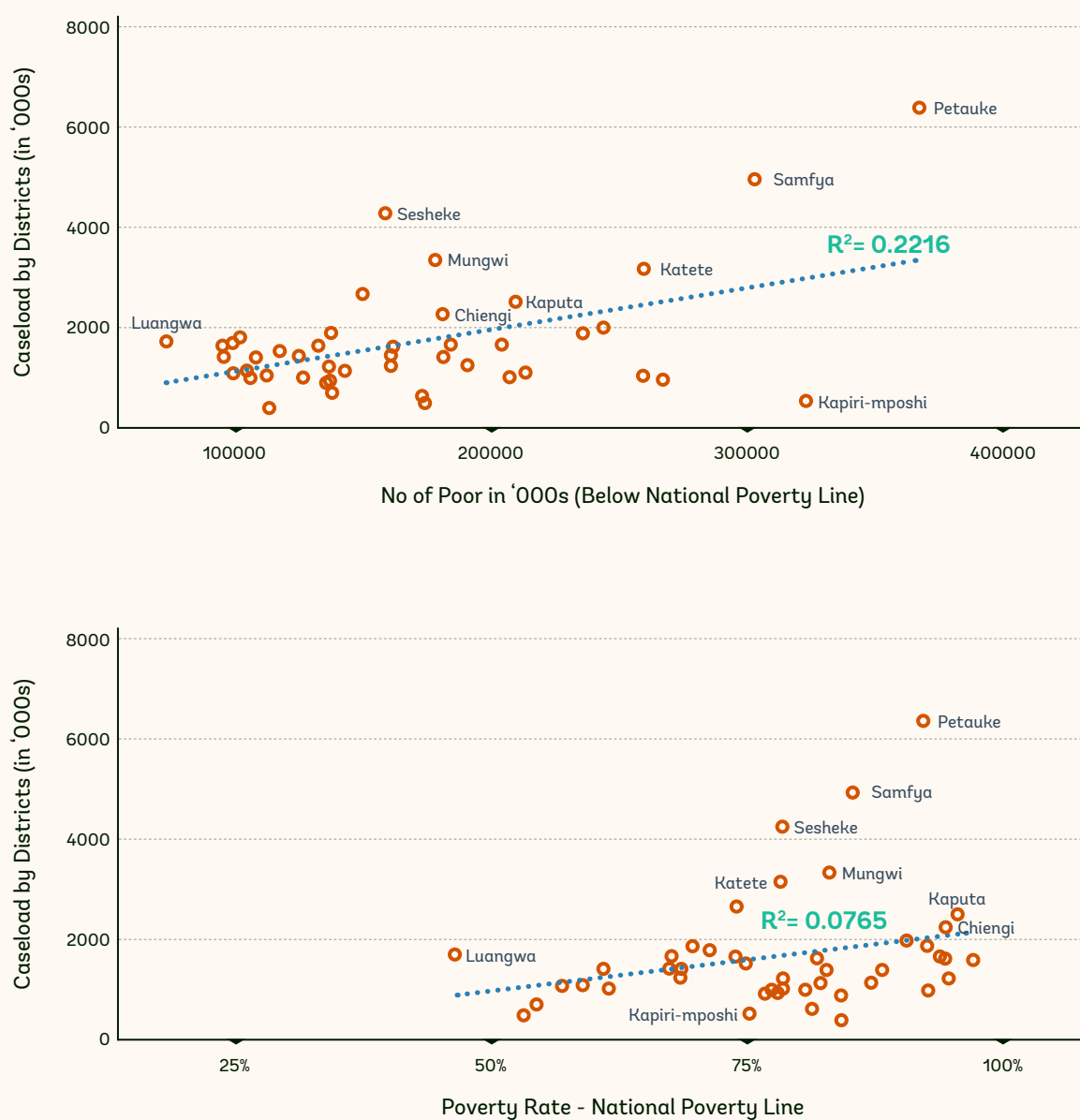
Note: Total beneficiaries across different categories are estimated using LCMS 2015 where the population weight is extrapolated from 2015 to 2019 using UN population prospects to make accurate predictions.



Source: Caseload data from MCDSS, LCMS, 2015, Poverty Rate from microsimulation exercise, and population projections from UN prospect



Figure 4.14: Spatial distribution of SWL caseload is reasonably aligned with number of poor across districts



Note: Dots represent 45 districts in the 2015 LCMS which are mapped to the current 51 districts covered by the program.



Source: Caseload Data from MCDSS, Number of Poor from microsimulation exercise and UN Population prospects.

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Targeting

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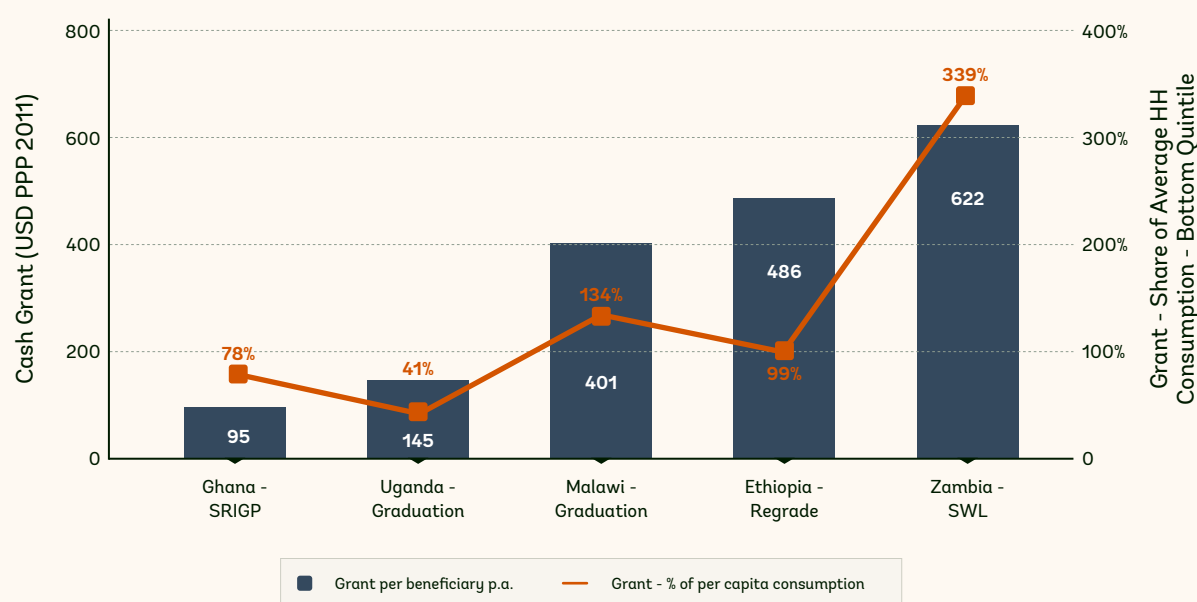
244. The SWL program is well targeted spatially. SWL has a larger presence in districts with relatively higher poverty rates. (Figure 4.14). The current caseload of SWL is higher in districts with higher poverty rates. The average poverty in 51 districts where the program is currently active is 74 percent as compared to 54 percent for districts with no caseload. At the household level as well, the baseline report for the SWL Impact Evaluation finds that the targeting was pro-poor. As the program plans to scale, the increased caseload should be balanced between covering the remaining poor in the current districts and the poor women in the districts not covered by SWL.

Adequacy

245. The adequacy of the lumpsum cash grant provided as part of SWL package is relatively high. The benefit amount of productive cash grant is more three times the average household consumption of the bottom quintile (Figure 4.15). This is substantially higher than similar grants provided by other programs in the region. This to some extent also speaks to the cost of providing the complementary interventions (e.g., savings groups and, life and business skills training) that is 15 percent of overall cost for GEWEL SWL whereas it is as high as 45 percent and 27 percent for NGO implemented Malawi Graduation and Uganda Graduation. The grant amount is provided in two installments to reduce the income effect on household consumption of receiving a large sum of money all at once, and to also reduce any security concerns that may come from being possession of this money.



Figure 4.15: High value of cash grant as compared to household consumption



Note: PEI Quick Costing Tool 2020 uses ASPIRE data to calculate average HH consumption for bottom quintile across countries. PPP = Purchasing Power Parity.



Source: MCDSS Data and PEI Quick Costing Tool 2020, World Bank.



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Impact

246. Poor and marginalized groups often face a set of overlapping constraints that cannot be addressed through one isolated type of intervention.

The theoretical framework of the “poverty trap” suggests that the poorest segments of a population have fundamentally different opportunities because they are unable to invest in boosting their productive capacity. The poor can be stuck in a cycle that limits them to low-productivity activities, given that they have lower levels of human capital and more limited access to productive inputs, as well as facing exposure to uninsured risks. While standalone interventions can have positive effects, a bundle of interventions that simultaneously addresses multiple aspects of the poverty trap can have a more important impact. For example, beneficiaries will derive more value from business capital when also provided with complementary training and coaching. Bundled interventions combining multiple types of activities are more difficult to design and implement, and their impacts can be harder to analyze. However, by building on existing small-scale economic inclusion programming and learning lessons from pilot projects, it is possible to scale interventions to achieve meaningful social and economic transformation at the national level.

247. Economic inclusion programs, such as SWL, that bundle together complementary interventions have been shown to have greater impacts relative to stand-alone activities.

A recent working paper from the World Bank analyzed 107 quantitative and qualitative impact evaluations from 80

economic inclusion programs to assess and compare their outcomes. In general, economic inclusion programs were shown to help participants increase their savings and income, as well as to invest more in productive assets. Positive impacts were most evident in the short term, with 82 percent of programs reporting an increase in the participants’ ability to save and 67 percent of programs reporting a significant impact on time spent working. The evidence for medium-term outcomes was less clear, with only seven programs reporting short-term impacts that were sustained in the medium term. Projects that provided a bundle of coordinated multidimensional interventions were shown to have greater impacts relative to one-dimensional activities. Clear examples of the greater aggregate effects of bundled interventions were shown in examples from Uganda (Village Enterprise micro-enterprise program) and South Sudan (Targeting the Ultra Poor), as well as cash-plus SSN projects in Nicaragua, Burkina Faso and Niger. In the Graduating the Ultra Poor project in Ghana, the stand-alone savings intervention had a positive effect in the short term, but only the recipients of the full set of interventions were able to grow businesses, invest in assets and savings, and sustain income gains in the medium term.

248. SWL’s own impact evaluation will provide a more robust understanding of its impacts.

The midline survey for the SWL impact evaluation is expected to be concluded by mid-2021. Once, completed, this will be one of the first impact evaluations of a fully government implemented scaled up economic inclusion program.

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4.7.2. Food Security Pack

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249. While impact results are generally less widely available in Zambia, FSP has had one qualitative assessment that provides useful insights into the program's efficiency and effectiveness. Measuring the tangible impacts of a social protection program can be difficult. Given the overlapping complexities of the large societies and economies in which projects are implemented, there is no easy way to measure the ultimate impacts of a specific initiative. Ideally, evidence-based policymaking uses impact evaluations that compare baseline and end-line survey data to measure social change. Currently, no such evaluations are available for JEI programs in Zambia. It is also possible to assess the positive social impacts of programming by measuring operational indicators. A well-designed and well-implemented program is likely to have a social impact, so an evaluation of project efficiency can be a useful proxy for measuring outcomes. In addition, soliciting beneficiaries for feedback about their satisfaction can also be an important way to gauge effectiveness. One qualitative impact study that is pertinent for this PER is a 2018 assessment of the FSP program, conducted by the FAO and MCDSS based on key informant interviews and focus group discussions with beneficiaries.¹⁶⁸ A handful of other qualitative studies have also addressed FSP implementation and beneficiary satisfaction.

250. The FSP is a Social Safety Net program that provides agricultural inputs to vulnerable but viable farming households. To meet the criteria for participation, a beneficiary must be able to farm a small plot no bigger than 1 hectare, be able to provide adequate labor, and not be in gainful employment. Beneficiaries must also meet at least one vulnerability

criterion at a secondary level, the most common being that the household is female-headed. The FSP has been operational since the 2002/03 agricultural season and currently covers 80,000 households. FSP is similar to the Farmer Input Support Programme (FISP), managed by the Ministry of Agriculture and Livestock, in that it provides an input pack to those who qualify, but FISP beneficiaries must pay a subsidized price for their packs. The FISP is much larger in scope than the FSP, targeting 1 million farmers¹⁶⁹ and representing approximately half of total government spending on agricultural sector poverty reduction programs.¹⁷⁰

251. The FAO/MCDSS assessment found that FSP had clear positive impacts at the household level. The project succeeded in its goal of increasing yields and agricultural incomes.¹⁷¹ Beneficiaries reported significant improvements in food security and nutrition in cases where inputs were received on time. Beneficiaries from female-headed households participating in another 2017 qualitative study noted that not only did yields increase, but they enjoyed better food quality.¹⁷² Nonetheless, some specific program components of FSP were less successful. The project goal of crop diversification was not fully realized, as only a few types of seed were provided, and these did not account for regional weather and soil variations. The conservation farming component did not receive adequate funding to be properly implemented and, in some years, the alternative livelihoods intervention (ALI) component providing livestock was not implemented at all. FSP also includes a component to invest in community level projects such as grain silos, but in most communities, there was not enough extra yield being paid back by beneficiaries to make this possible.

168. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

169. *Zambian Business Times*. "FISP targets 1 million emerging farmers." June 8th, 2020. <https://zambianbusinesstimes.com/fisp-targets-1-million-emerging-farmers/>

170. Mason, N. M., Wineman, A., & Tembo, S. T. (2020). Reducing poverty by 'ignoring the experts'? Evidence on input subsidies in Zambia. *Food Security*, 12(5), 1157-1172.

171. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

172. Chilala, K. (2017). The Food Security Pack Programme and Food Security In Zambia: Views from Female Headed-Households In Kabwe District. *The International Journal of Multi-Disciplinary Research*. CFP/401/2017.

252. FSP project design is sound, and its targeting criteria are well understood.

The FAO/MCDSS assessment found that the program design was appropriate for reducing food insecurity, increasing agricultural outputs and incomes, and spreading knowledge on sustainable agriculture. The targeting criteria were considered to be fair, appropriate and clear by all stakeholders. One limitation of the targeting is that input packs are allocated evenly across and within districts without taking into account regional variations in poverty levels.¹⁷³

253. Despite household-level impacts, the scale of FSP is still far too small relative to the problem of food insecurity.

When the program was designed in 2000, FSP was meant to assist 200,000 households, covering about 20 percent of the vulnerable but viable small-scale farmers in the 72 districts of Zambia. After nearly 20 years of implementation, the project has still not been able to fully scale up and, in its current form, FSP has not reached a caseload that would allow it to have a significant impact on food security at the national level. The funds disbursed were usually significantly below the amount budgeted for FSP. After reaching a high of 159,999 beneficiary households in 2003, the caseload dropped precipitously and remained consistently below 40,000 households from 2004 to 2016.¹⁷⁴ The declared target for 2021 is to reach 288,492 vulnerable households which, if achieved, would represent a record caseload for the program.

254. The vast majority of FSP participants were not able to graduate out of the program after two years.

A key design component of FSP is that “vulnerable but viable” households would receive support for two agricultural seasons, after which time they would be able to transfer into the larger FISP program that requires payment for input packs. It has been reported that only between 4 and 15 percent of beneficiaries manage to graduate each

year,¹⁷⁵ even though the lack of a single registry for poor and vulnerable households means that there are no formal statistics. This low transition rate can be attributed to problems with implementation, but also shortcomings in project design including a lack of additional financial support beyond the inputs themselves and limited agricultural extension services.¹⁷⁶ Moving from the FSP to FISP is also complicated by the need to be part of a cooperative to access FISP benefits. There can be competition for limited places in cooperatives and capital outlays are required to pay membership fees and purchase shares. Some beneficiaries from female-headed households in Kabwe District stated that the two-year timeframe was too short for them to become stable and start buying fertilizer on their own.¹⁷⁷

255. There are still many challenges to FSP implementation, a key one being the late delivery of inputs.

The late delivery of seed and fertilizer with respect to the planting season can significantly reduce the usefulness of inputs and thereby lessen the impact of the project overall. FSP inputs are procured at headquarters and transported to the districts, and often deliveries to beneficiaries arrive late. One possible solution has been the Expanded Food Security Pack (EFSP) program that uses electronic vouchers to allow recipients to procure inputs from local markets instead of waiting for delivery. The FAO/MCDSS assessment found that the e-voucher project allowed for inputs to be provided in a much timelier fashion.¹⁷⁸ The EFSP e-voucher system also supported the diversification of crops by providing access to more types of seed.¹⁷⁹ Finally, the proper monitoring of FSP implementation faced significant challenges. Given the limitations of the budget, the long distances involved, and insufficient transportation, district officers did not have adequate resources to monitor implementation properly and maintain contact with beneficiaries.

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¹⁷³. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

¹⁷⁴. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

¹⁷⁵. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

¹⁷⁶. Harman, Luke (2015). Strengthening Coherence between Agriculture and Social Protection: Zambia Country Case Study Report. Rome: FAO.

¹⁷⁷. Chilala, K. (2017). The Food Security Pack Programme and Food Security In Zambia: Views from Female Headed-Households In Kabwe District. The International Journal of Multi-Disciplinary Research. CFP/401/2017.

¹⁷⁸. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

¹⁷⁹. Wolkenhauer, Anna (2018). Assessment of the Food Security Pack (FSP) and Expanded Food Security Pack (EFSP). FAO and MCDSS.

4.8.

FUTURE DIRECTIONS AND POLICY RECOMMENDATIONS

256. Zambia has shown great foresight and promise in establishing a wide-ranging JEI sector. Since 2014, JEI has seen a robust policy foundation, with JEI programs drawing focus to the promotion of livelihood potential among the poor and vulnerable population. Nevertheless, the current scale and performance of the JEI system suffers from numerous implementation challenges including:

- actual spending on JEI programs being well below the authorized budget allocations and overall budget fluctuations feed into broader fiscal challenges for the sector;
- lack of consistency in reporting over time for most of the budget lines and management information systems (MIS) are fewer and inefficient;
- fragmentation and coordination issues;
- small coverage of needs; and
- likely challenges in program targeting despite self-reporting of extreme poor and vulnerable.

257. JEI programs have massive potential to address the grievances of the poor and vulnerable groups, provided they are fully funded and if many of these implementation challenges are addressed.

4.8.1. Recommendations

258. The chapter now presents ten policy recommendations for the sector based on the preceding analysis.

These range from broad recommendations for the structure and functioning of the sector as a whole (i to v), recommendations on improving overall program performance (vi-viii), to recommendations that attempt to address the specific constraints faced by youth (ix and x).

- I. **Expand the JEI sector.** In line with policy commitments, advocated by 7NDP and the 2014 Social Protection Policy, and given the scale of poverty and vulnerability, further expansion of the JEI sector is necessary. This would also be consistent with the recent global momentum to strengthen and scale up economic inclusion for the poorest and most vulnerable. Economic inclusion programs, in particular, are seen as an important complement to existing anti-poverty efforts through social assistance programming. They are a key driver of safety nets-plus agenda where “plus” refers to the potential of complementing cash with additional inputs and service components such as skills training, coaching, market links, and access to financial services.¹⁸⁰
- II. **Improve execution rates.** This can be done by closing the gap between allocations and spending for current programs. Going forward, ensuring sustainable allocations and releases by the government will be paramount to making the system more efficient and effective. With fiscal space continuing to shrink and the economic fallout of COVID-19, budgetary allocation, and releases to JEI programs may not be guaranteed in the coming years. As a result, development partners may need to continue to step in to finance the significant shortfalls. The government may also exploit alternative sources of financing outlined in 7NDP such as joint ventures, private sector investment and public private partnership to mobilize more resources required for implementation of JEI programs.¹⁸¹

¹⁸⁰ The World Bank Group 2021. State of Economic Inclusion Report 2021: The Potential to Scale

¹⁸¹ Ministry of national Development Planning 2017. 7 National Development Plan (2017-2021)

III. Consolidate programs and reduce the fragmentation of programs across ministries. Job programs are managed by several ministries. Many programs within and across ministries address similar demand and supply side issues, creating overlaps. Efficiency gains can be attained by redistributing responsibilities for job programs and merging programs. Implementation processes for institutional arrangements outlined in the 2014 Social Protection Policy could also be improved. Furthermore, strengthening coordination and communication between programs can contribute to achieving common goals more effectively. This could be done through the creation of an inter-ministerial coordinating body to oversee all JEI programs within Zambia.

IV. Introduce sustained capacity building initiatives for government officials. Institutional capacity building is a recurring theme in 7NDP. Central, local and community level government offices may face capacity constraints to administer and manage multidimensional and cross-sector JEI interventions. The bundling of multisectoral interventions, which is a central feature of economic inclusion programming, also requires significant administrative capacity. Organizational capacity and robust delivery systems are also imperative for effective scale up.¹⁸² Building capacity initiatives may involve increasing the number of staff members at local level and providing training to government personnel in the key elements of JEI programs and social protection. The government may also engage in partnerships with groups at community level, nongovernmental organizations (NGOs), and private sector to expand its capacity. This is being done effectively in the SWL program that occasionally brings on NGOs such as BRAC International, Fundación Capital and Financial Sector Deepening Zambia to provide technical assistance on areas such as life and business skills training and savings groups.

V. Bundle interventions. Successful approaches, particularly aimed at the extreme poor and vulnerable, will require bundling interventions together. The State of Economic Inclusion Report 2021, undertakes a review of evaluations of 80

programs in 37 countries to show that combining a set of interventions together has greater impact on income, assets, and savings relative to stand-alone interventions. JEI programs offer potential to redesign programs through a bundling of additional interventions, such as capital infusion, training, and coaching. Such interactions are likely to drive overall program impact. While stand-alone interventions can also impact incomes, assets, and resilience, a single intervention would not necessarily help those facing multiple constraints or would do so to a lesser extent. Bundling interventions could also provide a pathway to bring about greater coherence in the sector as multiple Ministries converge their interventions spatially or even at the household level. SWL initiative under GEWEL Project provides a good example of how such bundling could be done even as it is done through a single Ministry rather than across Ministries. Additionally, the program could also potentially, over time, provide a platform for the JEI sector to consolidate.¹⁸³

VI. Utilize the existing data infrastructure from other pillars of social protection. Decision-makers may utilize the existing data infrastructure from other pillars of social protection, such as social assistance's SCT program, to better target the poor and vulnerable population. Currently, there is no single registry for the identification of poor and vulnerable households. Use of existing data infrastructure, such as SCT data, can help with compilation and consolidation of information on beneficiaries. Implementers may also bundle JEI programs with SCT programs to target these beneficiaries. This is already being done by SWL program that selects its beneficiaries from within SCT beneficiary households

VII. Increase monitoring and evaluation of the JEI programs. Doing so will help to assess their effectiveness and instill consistency in reporting over time for most of the budget lines. In fact, monitoring and evaluation is a key cornerstone of the 7NDP. As per the JEI landscape survey,¹⁸⁴ about half of the programs did not have a working MIS. The Women Empowerment Programme and SWL were among the few JEI programs with a functional

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¹⁸². The World Bank Group 2021. State of Economic Inclusion Report 2021: The Potential to Scale

¹⁸³. Ibid.

¹⁸⁴. The JEI landscape survey was launched in October 2020 with the objective of understanding where Jobs and Economic Inclusion programs are anchored, who they target, their budgets and expenditures, their program management and implementation software, and whether there are synergies and coordination mechanisms for these programs.

- ES MIS. Further, these MIS are not harmonized and therefore contribute to program fragmentation and the difficulty to avoid duplication and create complementarities.¹⁸⁵ Therefore, redesigning JEI programs to increase the capacity for monitoring and evaluation will help to gain a better understanding of program impacts. Introduction of MIS must be accompanied by robustness of the management, the validity of data and the efficacy and accountability of the system, to realize any benefit accruing from a working MIS.
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- VIII. **Ensure greater focus on improving the quantity and quality of impact evidence of JEI programs in Zambia.** Since the impacts of JEI programs depend on the context, target population, intervention and quality of implementation, the existing evidence can merely serve as guidance for Zambia. It is important that Zambian programs assess its impacts to inform decisions around scale-up and consolidation. The evaluations could follow individuals over time and compare their outcomes with similar individuals, who have not benefited from programs. To be able to properly evaluate the impact of programs, it will be important to compare outcomes between beneficiaries and nonbeneficiaries. Following individuals for several years will help to make statements about the short-, mid- and long-term impact of programs. In intermediation programs, it is, for example, important to follow placed individuals and assess how long they stay in their new occupation, as retention is often low. Special attention should also be paid to whether programs change the labor market and the opportunities of nonbeneficiaries. For example, trained individuals might crowd out nontrained individuals from occupations instead of accessing new jobs. These considerations will help to create more meaningful insights from evaluations.
- IX. **Foster labor-intensive growth that targets youth.** Youth in most low-income countries struggle to find their first job and are more likely to be in unpaid family work or the informal sector. In such circumstances, development of labor-intensive growth and fostering of youth schemes and employment incentives can help smooth the transition from school to work and/or encourage orderly emigration.¹⁸⁶
- X. **Address financial constraints for youth.** Measures such as subsidized dual apprenticeships have the potential to address financial constraints for youth as well as employers' inability to commit to provide general training. The dual approach combines wage subsidies with a dual training approach; on-the-job training in firms is complemented by theoretical training in vocational training centers. In Cote d'Ivoire, the program's direct effects for youth and indirect effects for firms were documented. In the short run, youths increased their human capital investments and a net entry of apprentices into firms was observed. While the subsidized apprenticeships were substituted for traditional apprenticeships, the effect was limited. The subsidy offered offset forgone labor earnings. In four years, the treated youth started performing complex tasks and were able to increase their earnings by 15 percent. Therefore, dual apprenticeships can be instrumental in expanding access to training, upgradation of skills, and improving earnings for youth without crowding out traditional apprentices.¹⁸⁷

185. MCDSS (2014). National Social Protection Policy. Ministry of Community Development and Social Services, June 2014

186. World Bank 2018. Pathways to better jobs in IDA countries.

187. B. Crepon and P. Premand, "Direct and Indirect Effects of Subsidized Dual Apprenticeships", IZA Institute of Labor Economics (2019)

LANDSCAPE SURVEY

The Landscape Survey was administered to each Ministry in the Economic Diversification and Job Creation Cluster. Follow-up sessions were then offered to focal points to explain how to answer each question in the survey and the intent behind these questions. Finally, bilateral meetings were held to increase response rate and accuracy of responses. These bilateral meetings also made it possible to get a qualitative/descriptive understanding of these programs. Below is the status of survey responses.

NAME OF MINISTRY	RESPONDED
Ministry of Community Development and Social Welfare	YES
Ministry of Gender	YES
Ministry of General Education	YES
Ministry of Housing and Infrastructure	YES
Ministry of Tourism and Arts	YES
Ministry of Labor and Social Security	YES
Ministry of Agriculture	YES
Ministry of Youth, Sports and Child Development	NO
Ministry of Higher Education	NO
Ministry of Commerce, Trade, and Industry	NO

INTERNATIONAL EXPERIENCE OF JEI PROGRAMS FOR YOUTH

CONSTRAINT FACED BY YOUTH	INTERVENTION	RATIONALE	PROGRAMS
Lack of adequate information about job opportunities and lack of information about skills of young applications by employers, in addition to job application obstacles and limited networks	Employment and intermediation services	Such interventions create mechanisms that deal with asymmetric information issues between (for) employers and employees less costly	Programa Inerjovem (Portugal), Jordan New Opportunities For Women (NOW);
Limited Access to Credit, social networks and business know-how; Lack of financial capital	Youth Entrepreneurship Promotion Programs	Directly supplies young entrepreneurs with access to the specific inputs needed for a business to succeed	Women's Income Generation Supports (WINGS, Uganda), The Prince's Trust (UK)
Inadequate supply of skills – technical, cognitive, and non-cognitive; low Skill Level with no or little work experience; skills mismatch; missing “soft” non-cognitive skills	Skills training for young people	Training workers with the technical, vocational, non-cognitive skills that makes them appealing to hiring employers	Vocational training for the unemployed in Turkey; Private sector training and internship for Urban Youth in Kenya; Job Corps (US), Chile Joven
Workers whose productivity is not high enough to outweigh the low productivity of youth with little or no work experience	Subsidized Employment	Decreases hiring and labor costs of employing workers; allows them to gain valuable work experiences, making them more productive and driving them into their career path. ¹⁸⁸	Transport subsidy program to unemployed youth in Ethiopia; JUMP wage subsidies (JWS, Germany), Youth Hires (Canada)

188. Do Youth Employment Programs Improve Labor Market Outcomes? A Systematic Review. Kluve et al., 2016

CONSTRAINT FACED BY YOUTH	INTERVENTION	RATIONALE	PROGRAMS
Fiscal constraints for business owners	Matching grants and training programs	Matching grants address market failures by helping firms to invest in services (normally underinvested) that are crucial for a business' success.	Business Training and Female Enterprise Startup, Growth, and Dynamics in Sri Lanka; Matching grant program for small firms in Yemen
Lack of capacity building and information amongst business operators	Consulting services	Such services are usually one-to-one and personalized training, coaching and/or mentoring. Coaching includes a vast array of specialized services including access to financing, business advisory services, access to information and facilities and international connections for partnerships and the latest information on technologies and business models	Consulting and capital experiments with microenterprise tailors in Ghana
Limited social networks and business know-how	Training programs	Training programs target increasing skills and knowledge of business owners. Topics included in training pertain to financial management, human resources, operations and marketing and communication	The Effects of Business Accelerators on Venture Performance in Chile





5 PENSIONS

Ensuring Sustainable and Equitable Coverage for All

5.1. Executive Summary

5.2. Introduction

5.3. Pension Institutions Covering the Formal Sector

5.4. Coverage of the informal sector: Possibilities and incipient initiatives

5.5. Pension reform options: Government agenda and recommendations



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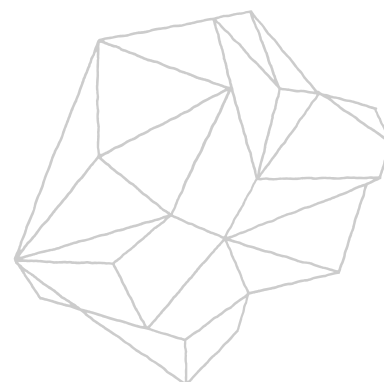
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5.1.

EXECUTIVE SUMMARY



259. Despite a process of consolidation beginning in 2000, the Zambian pension system is still fragmented.

Since its introduction in 2000, the National Pension Scheme Authority (NAPSA) has enrolled all new workers in the public and private sectors and the former members of the Zambia National Provident Fund (ZNPf). However, workers who were members of the Local Authorities Superannuation Fund (LASF) and the Public Service Pension Fund (PSPF) prior to 2000 remain with those institutions. Further, PSPF continues to enroll members of the Defense and Security. The slow phase-out of previous schemes generates inequity in terms of pension rights for different parts of the population.

260. Although NAPSA is maturing and accumulating assets, the liabilities that it assumed from ZNPf generate short-term financial risks.

NAPSA's rules, in terms of parameters and membership, have implied a period of net gains in assets, with increased contributions and relatively few benefit payments so far. However, NAPSA took over ZNPf's assets and liabilities. Since ZNPf offered a guaranteed minimum interest, its assets were depleted in 2015 and NAPSA is currently paying ZNPf claims from the NAPSA pension fund. With limited information available on outstanding ZNPf liabilities, it is unclear what impact they have on NAPSA assets. In 2020, the government decided to close ZNPf accounts, but there has been no clear directive on how to implement this decision.

261. Generous commutation rules at PSPF and LASF have caused financial pressure and fiscal costs for both schemes amounting to 0.9 percent of GDP.

Both PSPF and LASF allow pensioners to commute up to two-thirds of their benefits using commutation factors that more than compensate for future life expectancy. Under these conditions, retirees have strong

incentives to claim lump sums, and practically all do. This generates huge outlays that the schemes cannot afford. To clear the arrears that PSPF accumulates on pension payments, the government transfers approximately half of PSPF's budget allocation each year. Furthermore, legal decisions have stated that public sector workers must remain on the payroll until their lump sum is paid, which further increases the cost to the government.

262. LASF and PSPF rules are not aligned with international best practices and vary greatly from NAPSA in benefits offered to retirees.

While LASF and PSPF parameters are generous in comparison with those offered by Sub-Saharan Africa peers, they also outpace mature systems in advanced countries that have undertaken parametric reforms to improve the financial sustainability of their pension systems (e.g. accrual rates of 1.8 percent or 1.83 percent vs the OECD average of 1 percent). Significantly different benefits will be paid to those workers that joined the public sector around the cutoff point of February 2000, with those who remained in PSPF receiving higher benefits than those who joined NAPSA. Further, given the relatively small scale of its operations, LASF has high administrative costs.

263. All three institutions cover formal workers, but informal employment represents 70 percent of total employment in Zambia, generating an important coverage gap.

In 2017, NAPSA launched initiative "Extending Social Security Coverage to the Informal Sector (ECIS)" with a two-pronged approach: enroll those with a dependent labor relationship (such as domestic workers) in the NAPSA scheme, and launch a new scheme tailored for informal workers. NAPSA estimates that it has enrolled approximately 18,000 new members, facilitated by the introduction of the online



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portal e-NAPSA in 2017. The rollout of the new informal sector scheme was delayed due to the Covid-19 pandemic, but registrations are currently ongoing, with a focus on occupations such as saw-millers, subsistence farmers and other self-employed.

264. The Government of Zambia is working on a pension reform agenda with the vision of building a unique and consolidated pension system in the country. In the initial reform proposal, NAPSA is envisioned as the unique pension provider for all formal sector workers with a 40 percent target replacement rate. Occupational pension plans for the private sector, PSPF for public employees and LASF for local authorities and utilities would provide an additional tier with a 20 percent target replacement rate. Under this proposal, PSPF (civil service) and LASF would be allowed to receive new members for the first time since 2000 and operate a reformed pension scheme for these new groups.

265. A strict legal opinion, based on the 2016 Constitution, has prevented a series of reforms that could drastically reduce fiscal costs. The Ministry of Justice stated that pension plan conditions could not be changed for any current member unless it was in favor of the member. This has impeded changes to future accrual rates or a gradual transition toward lifetime earnings as a base salary for current PSPF or LASF members, even if accrued rights are preserved. It has also prevented

changes to the generous commutation rules that generate most of the financing gaps each year for PSPF and LASF. Given this legal opinion, the options to control expenditures in both schemes remain limited.

266. A complete pension reform package should include a comprehensive institutional framework, including investment management and supervision of NAPSA, plans to limit and finance existing liabilities, a coherent strategy for coverage extension to the informal sector, and a strengthened monitoring and evaluation (M&E) system. The government proposal to establish a unique system with multiple tiers is a step in the right direction. However, it needs to be seen if there is any justification for maintaining PSPF and LASF as occupational plan providers given their specific functions and administrative costs.

267. Producing medium- and long-term pension plans would help the Ministry of Finance (MOF) plan for financing gaps. The practice so far has been to have an annual allocation for PSPF transfers in the budget and subsequent sub-execution of those transfers, as well as ad hoc transfers to LASF. Long-term planning of government contributions to the scheme are needed given that financial deficits will continue growing and PSPF already experiences arrears in payments. In addition, medium- and long-term financing plan for pension expenditures would allow the government to better plan for other social expenditures.

5.2.

INTRODUCTION

268. By median age, Zambia is currently a young country but will experience a gradual process of aging. Demographic projections produced by the United Nations Population Division¹⁸⁹ indicate that the proportion of working-age population (15-64 years) and the proportion of older persons population (65 years or more) will both increase to the detriment of the young population (0-14 years) (Figure 5.1). While the older persons population represents only 2.1 percent of total population, it is expected to increase to 12 percent by the end of the century.¹⁹⁰

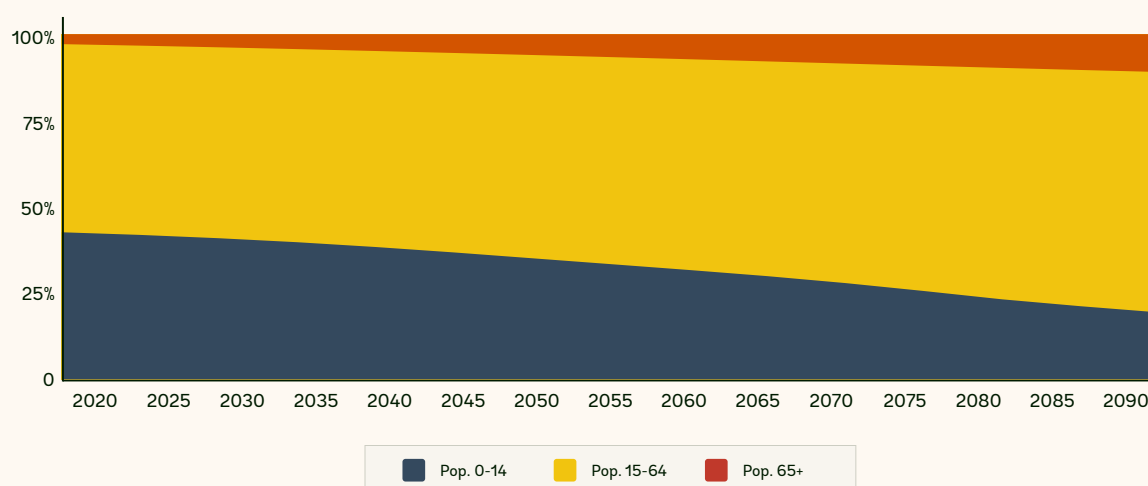
269. The majority of the working age population is out of the labor force, with employment concentrated in informal jobs. According to the Zambia Labour Force Survey 2019, more than 6.2 million out of the 9.2 million in the working age population were not in the labor force. Out of the more than 2.9 million employed, only 941,292 were categorized as formal employment, while more than 2 million

were considered informal employment (Table 5.1). The current pension institutions provide social insurance to the formal sector, covering it almost fully, but efforts to cover the informal sector are still incipient.

270. The mandatory pension system in Zambia consists of three institutions: (i) National Pension Scheme Authority (NAPSA) (ii) Public Sector Pension Fund (PSPF) and (iii) Local Authorities Superannuation Fund (LASF). All three offer contributory defined benefit systems with separate sets of rules and cover different segments of the population. In addition, private sector employers can offer occupational pension schemes, which are managed by private pension providers who are regulated and supervised by the Pensions and Insurance Authority (PIA). These schemes constitute a “second tier” of pension benefits, in addition to those provided by NAPSA, and covered a total of 82,084 members as of 2019.



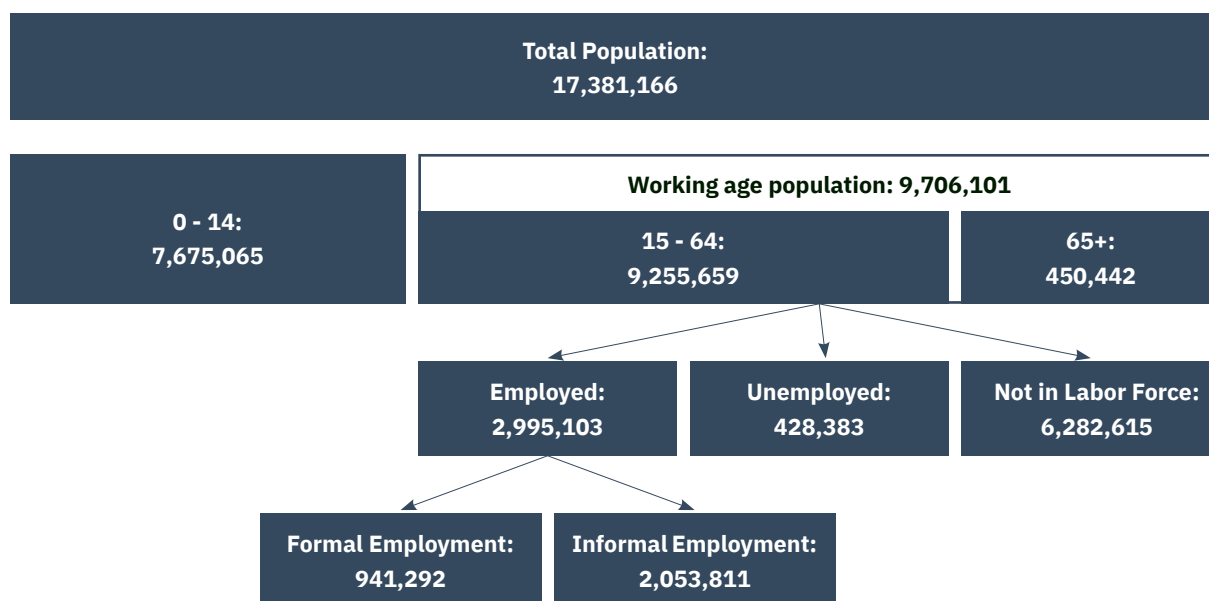
Figure 5.1: Population composition by broad age groups



Source: Staff estimates based on the program assessment in Friedson-Ridenour and Milapo (2020).

189. United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition. Rev. 1.

190. According to Median variant estimates.

**Table 5.1:** Decomposition of population by age and employment status

Source: Staff estimates based on the program assessment in Friedson-Ridenour and Milapo (2020).

271. In 2000, with the inception of NAPSA, the pension system in Zambia started a process of consolidation. Prior to 2000, public sector employees (civil service and military and security services) contributed to PSPF; workers in local jurisdictions (city, municipal and town councils), some utilities (ZESCO, Lusaka and Chipata Water and Sewerage Companies) and the National Housing Authority contributed to LASF. Private sector workers contributed to the Zambia National Provident Fund (ZNPF), established in 1966 as a defined contribution pension scheme with a minimum rate of return guarantee.

272. NAPSA was established in February 2000 by the National Pension Scheme Act no. 40 of 1996 of the Laws of Zambia. Under this law, all new entrants to the civil service, local authorities, and entities previously covered by LASF would join NAPSA. All private sector workers covered by ZNPF would be transferred to NAPSA. Workers already enrolled in PSPF and LASF would remain in those institutions under the existing rules of the respective schemes. Defense and Security personnel would continue to join PSFP.

273. Coverage of the actively employed population is low. By the end of 2019, NAPSA reported a total of 858,724 active members, PSPF registered 93,848 contributing members, and LASF had 3,271 members. Jointly, these figures represent 31.9 percent of the total employed population estimated for 2019.¹⁹¹ This implies that over two-thirds of the employed population—mostly corresponding to informal workers—do not contribute to any pension scheme.

274. Because of the lack of coverage in the contributory system, a significant proportion of the older persons population does not receive a pension benefit. In 2019, NAPSA reported a total of 16,918 pensioners, LASF had 13,309 pensioners and PSPF had 58,634. Together, these figures represent 13.3 percent of the population which is 60 years or older. Table 5.2 shows how PSPF and LASF have a significant imbalance between contributors and pensioners. On the other hand, NAPSA, only pays benefits to less than 20 pensioners for every 1,000 contributing members.

191. Source: Labour Force Survey Report, 2018, Central Statistical Office and Ministry of Labour and Social Security.

**Table 5.2:** Membership, Beneficiaries and Coverage of Pension Institutions

PROGRAMS	ACTIVE MEMBERS		PENSIONERS
NAPSA	858,724		16,918
PSPF	93,848		58,634
LASF	3,271		13,309
Total all pension schemes	955,843		88,861
Total Employed Population	2,995,103	Total Population 60+	670,345
Coverage of employed population	31.9%	Coverage of older persons population	13.3%



Source: Author's elaboration based on NAPSA, PSPF and LASF Annual Reports and Labour Force Survey 2019.

275. The three pension schemes differ in the parameters and benefits they offer, with NAPSA parameters more closely aligned with common international practice.¹⁹² In principle, NAPSA should be an affordable and adequate source of retirement benefits. It has a target replacement rate of 40 percent (with respect to career average salary) after 30 years of contribution. Its 10 percent contribution rate and retirement age at 60 years are comparatively low, but these parameters could eventually be revised depending on the actuarial valuation evolution of the scheme. NAPSA will be analyzed in more detail in the next section.

276. PSPF and LASF are legacy schemes that carry over a generous parametric design which, when combined with the imbalance between contributors and beneficiaries, seriously affects their sustainability. Both are final salary schemes with high accrual rates and low retirement ages.¹⁹³ However, the main challenge to financial sustainability might be the generous commutation factors (which are more than actuarially fair) and the large portion of the benefits that can be commuted, generating significant outflows of lump sum payments at retirement, which

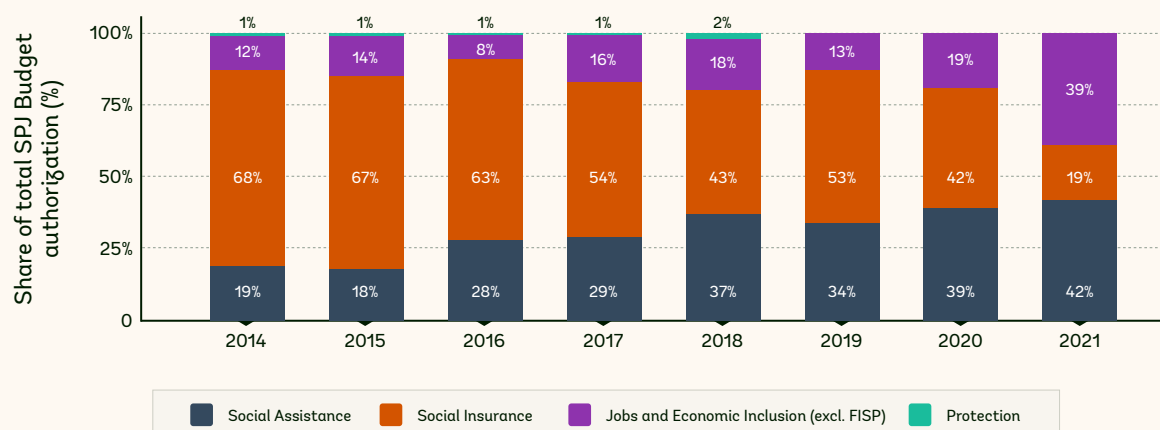
will be discussed in more detail. The heavy frontloading of benefits creates significant finance gaps in these institutions as they lack the liquidity to cover these costs. These gaps, in turn, produce substantial fiscal costs, that the general budget is usually unable to cover. For members, frontloading means inadequate income protection during retirement.

277. The existing pension schemes are part of a broader social insurance system in Zambia. The Government of Zambia considers social security to be a part of a social protection system that encompasses social assistance, livelihood and empowerment, protection and disability. Pensions and health insurance comprise the social insurance branch.¹⁹⁴ Social insurance has historically concentrated the majority of expenditure on social protection; however, social assistance spending has increased in recent years (Figure 5.2). The National Social Protection Policy (NSPP) 2014-2018 recognized the fragmented nature of the pension system, the lack of coverage to the informal sector and the sustainability of statutory pension systems as the main challenges for the sector. The following sections analyze each institution in detail, with special focus on the financial situation and expenditures.

¹⁹². See section 2 for a comparison of NAPSA parameters with pension systems in Africa and OECD averages.

¹⁹³. See Table 5.3 for a description of the main parameters for each pension scheme.

¹⁹⁴. National Social Protection Strategy 2014.


Figure 5.2: Composition of budget allocation in Zambia's social protection sector


Note: Social insurance is spending on Public Sector Pension Fund and Social Health Insurance.



Source: National Budget, various years.


Table 5.3: Main characteristics of each pensions institution

PROGRAMS	NAPSA	PSPF	LASF
Membership	<ul style="list-style-type: none"> All private sector workers Civil Servants joining after February 1st, 2000 Local Authorities and ZESCO employees joining after February 1st 2000 	<ul style="list-style-type: none"> Civil Service members prior to February 1st, 2000 Military and Security Personnel 	<ul style="list-style-type: none"> Local Authorities members prior to February 1st, 2000 ZESCO employees prior to February 1st 2000
Contribution rate	<ul style="list-style-type: none"> 10% (5% employer and 5% employee) Contribution ceiling = 4x average earnings 	14.5%	33% (10% employee and 23% employer)
Retirement age	<ul style="list-style-type: none"> 55 (early) 60 (normal) 65 (late) 	<ul style="list-style-type: none"> 55 (early) 60 (statutory) 	55
Type of benefits	Early retirement, invalidity, normal retirement, survivor, funeral grant	Old age, early retirement, ill-health retirement, survivor benefits.	Retirement due to: Old age, ill health or retrenchment, survivor pension, dismissal, discharge or resignation
Accrual rate	1.33% per year	1.8% per year	1.818% per year
Minimum length of service	15 years	10 years	10 years
Pensionable earnings	Full career average	Final salary	Final salary
Commutation Factor	n/a	25.84 at 55 and 23.26 at age 60	23.14 at age 55
Max. Commuted benefit	n/a	2/3 of pension benefit	2/3 and 18.03 at age 65

5.3.

PENSION INSTITUTIONS COVERING THE FORMAL SECTOR

5.3.1. National Pension Scheme Authority (NAPSA)

Financial Performance

278. NAPSA is the main pension scheme in terms of membership, with its assets, contributory income and benefit payments having continually increased in the last decade (Figure 5.3). NAPSA's net asset position has grown at around 30 percent per year on average in the last five years, except in 2019 when it grew by 19 percent. Member contributions have also grown steadily. While benefits payments have also grown, they still represent a small proportion of contribution income (27.5 percent in 2019).

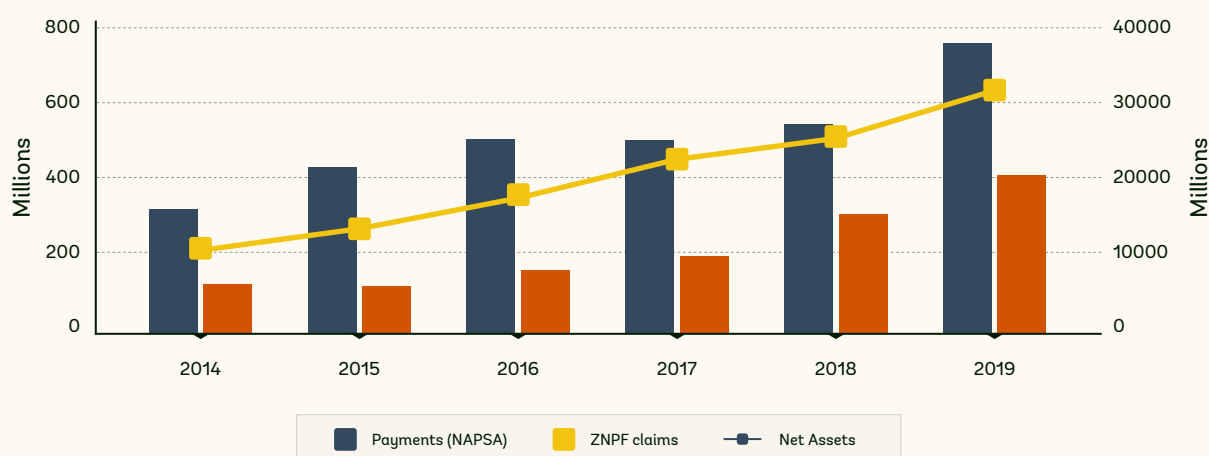
279. NAPSA is still maturing and is expected to continue accumulating assets in the near future. NAPSA benefits from being relatively recent in inception and receiving members from ZNPF. The first cohort of beneficiaries retired in 2006. More than any other scheme, NAPSA reflects the

relatively young demographic composition of the country. The latest actuarial review (Government Actuary's Department, 2019) estimates that with zero real returns on earnings, NAPSA assets will be depleted by 2070, while under a 5 percent return assumption, assets will continue to grow beyond the projection time horizon of 2100.

280. Despite obtaining high rates of return, NAPSA assets are overly concentrated on fixed income and overexposed to domestic risks. NAPSA's rate of return on assets for 2019 was above its target at 18 percent. However, the asset allocation appears concentrated on fixed income (22 percent on fixed term deposits) and government securities (52 percent of assets). Variable income assets (shares in listed and unlisted corporations) represent only 3 percent



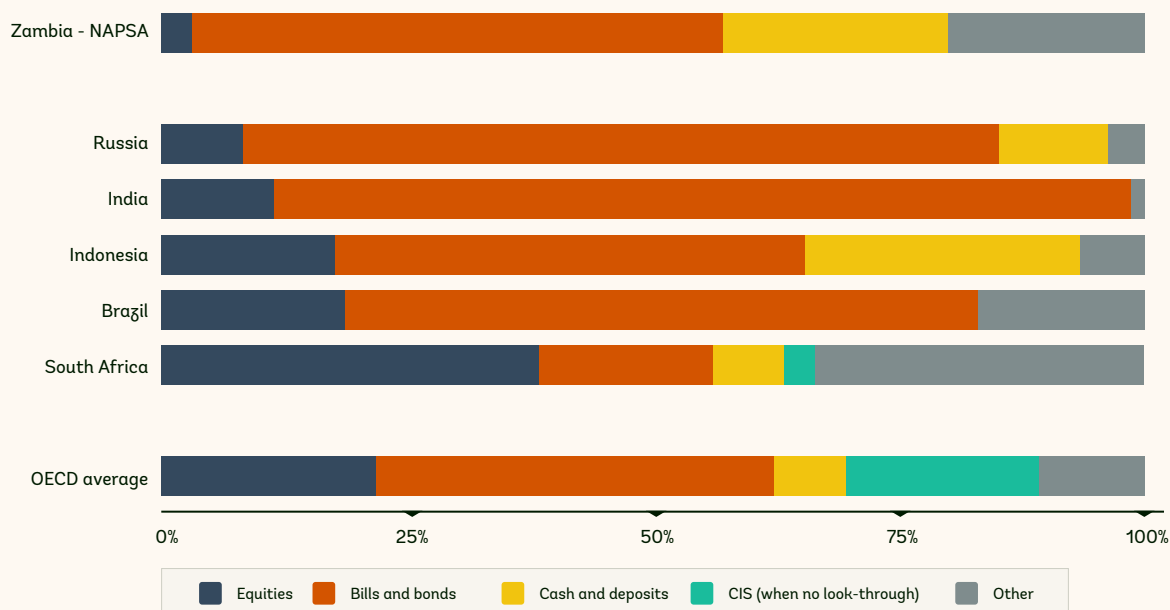
Figure 5.3: NAPSA total benefit payments and net assets



Source: NAPSA Annual Report, various years.



Figure 5.4: International comparison of Pension Funds Asset Allocations (funded and private pension funds)



Source: OECD, Pensions at a Glance 2019 and NAPSA. Data for NAPSA is 2019, data for OECD and G20 is 2018 or latest available.

of total assets, while real estate, housing and investment properties combined account for 23 percent of assets. This investment profile suggests NAPSA is not taking advantage of longer-term investment opportunities, such as variable income or international sovereign bonds. It is vulnerable to real estate market shocks and exposed to domestic risks as there is barely any international diversification in its portfolio. International best practices and comparison with OECD and other countries suggest that pension funds should be diversified into long term investments with both domestic and international assets (Figure 5.4).

281. The main source of liabilities that NAPSA faces in the near term comes from the account balances that it inherited from ZNPF. Although ZNPF was a Defined Contributions (DC) Provident Fund, it provided a guaranteed minimum annual interest which surpassed the returns of the fund. As a result, it was not fully funded. NAPSA used to manage the ZNPF assets in a separate fund, but because of the guaranteed interest paid from it, ZNPF assets

were depleted in 2015. After ZNPF merged with NAPSA, its claims are being paid out of the NAPSA pension fund.

282. The merging of ZNPF with NAPSA, has caused the latter to morph into a mixed scheme consisting of Defined Benefits (DB), retirement benefits and a notional DC account for former ZNPF members. ZNPF members are entitled to withdraw their individual account balance at age 50. This balance is composed of the contribution they made to ZNPF plus a guaranteed annual interest rate determined ex ante.¹⁹⁵ Former ZNPF members are also entitled to a funeral grant and disability benefits. Therefore, former ZNPF members receive additional benefits besides those provided under NAPSA rules. Since the ZNPF fund has been depleted, these benefits are now financed by contributions from NAPSA members, generating a cross-subsidy from younger cohorts, that were not part of ZNPF, to older members who transferred from ZNPF. This additional liability hampers the financial position of NAPSA.

195. The guaranteed interest rate has fluctuated over time and it is determined in nominal terms. Currently, the effective interest rate is 27.3 percent per year.

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283. Although there is no data on the total value of ZNPF liabilities, there are indications that potential payment to ZNPF beneficiaries are sizable. Data from NAPSA annual reports show that ZNPF claims have increased every year since 2013 and represented a significant portion (35.3 percent) of total benefit payments made in 2019 (Figure 5.2). According to NAPSA records, 36 percent of all members and 29 percent of active members (those who made contributions in 2020) joined in 2000, transferring from ZNPF. These records show that more than 60,500 active members and 250,000 total members who joined NAPSA in 2000 are younger than age 50 and, therefore, potentially entitled to a payment from ZNPF contributions.

284. In June 2020, the Cabinet approved the closure of ZNPF member accounts. Since then, NAPSA has made public campaigns requesting individuals who are 50 years of age or older to claim their ZNPF benefits. However, if it is the government's intention to liquidate all accounts, including for those who are younger than 50 years of age, it is unclear if there are legal grounds to do so. If this is the case, NAPSA should assess the total value of ZNPF's outstanding liabilities to plan the liquidation of these funds. If the value of liabilities is significant, they might generate liquidity concerns and NAPSA will need to make the required contingency plans for funding, including requesting government financing if necessary.

285. The government could consider discontinuing the guaranteed interest provided to members as an alternative to liquidating ZNPF balances. In this case, current NAPSA members who have not collected ZNPF benefits would accrue only the actual rate of return obtained by the NAPSA fund. NAPSA could even charge an administrative fee for managing these resources on behalf of former ZNPF members and create a spread in its favor.¹⁹⁶ This spread would also reduce the cross-subsidization of former ZNPF members by NAPSA members. If legally possible, the elimination of the minimum interest guarantee could be combined with the liquidation of all ZNPF accounts. This measure would provide additional incentives to former ZNPF members to collect their account balances earlier. Otherwise, they would be more likely to postpone withdrawals and continue accumulating above-market interest rates on their accounts from their ZNPF contributions.

286. Overall, NAPSA is in a healthy financial position as a maturing system but will need to resolve the issue of ZNPF liabilities in an efficient way to limit cross-subsidization among members and ensure that financial sustainability is not threatened. Since contributions are higher than benefit payments, NAPSA is building assets and does not require government transfers. However, asset allocation could be improved to better take advantage of its financial position. The payment of ZNPF benefits from the NAPSA fund affects its value, even though they may not be enough to generate a net actuarial deficit.

Coverage

287. NAPSA is the main pension scheme in terms of number of members. Its more than 850,000 active members represent 28.6 percent of total employed population by end of 2019. However, since it is a relatively younger scheme it only accounts for less than 17,000 pensioners or less than 3 percent of the Zambia's older persons population.

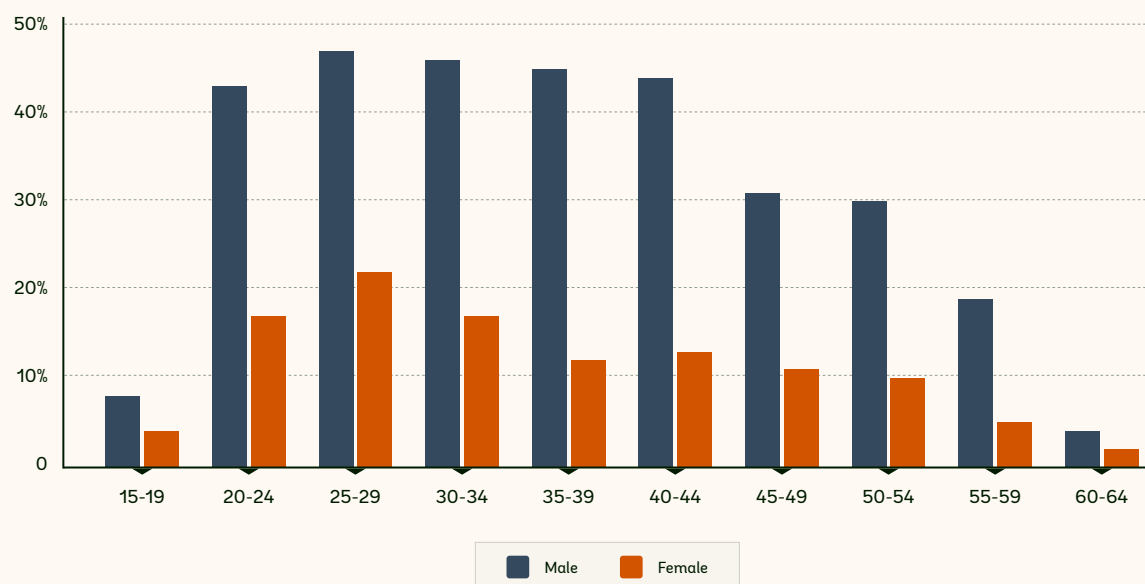
288. There is a significant gender gap in contributory coverage; the highest coverage rates are among men in prime working age groups. Total male NAPSA contributors represent 38.2 percent of total male employment, compared with less than 14 percent for women. The highest coverage rates are among men between 25-44 years of age, with rates above 45 percent, compared with a coverage rate that reaches 15 percent among women in the same age group (Figure 5.5). These figures indicate that female employment is more likely to be informal. As a result, working women lack proper social insurance coverage for old age, disability, or death. In fact, less than 18 percent of all current pension beneficiaries in NAPSA are women.

289. As low as it is, coverage of the working age population in Zambia is comparable to the rest of Sub-Saharan Africa. Zambia's private sector insures around 9 percent of the population between the ages of 15-59 years, while the Sub-Saharan Africa private sector average is 11 percent. Barring a few outliers in the region, Zambia's coverage is higher than most of the countries in the sample (Figure 5.6), which shows the low incidence of formal employment in the region.

¹⁹⁶. For example, it could offer an interest rate equal to the return of the NAPSA fund minus 10 basis points, which would serve as a service fee.



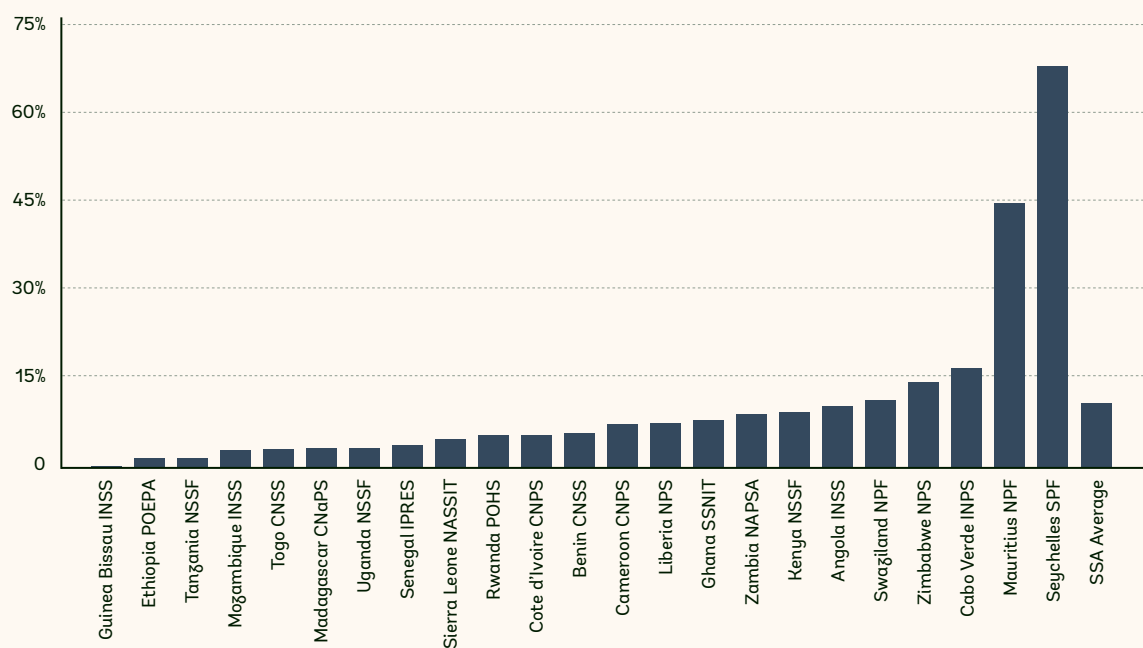
Figure 5.5: Coverage rates by sex and age groups (NAPSA)



Source: NAPSA administrative data and Labour Force Survey 2019.



Figure 5.6: Percentage of population ages 15 to 59 contributing to a private sector pension system



Source: World Bank Africa Pension Database



Adequacy

290. NAPSA benefits are adequate; however, the minimum threshold of 15 years of service to qualify for pensions may prove demanding for a sizable proportion of population as they do not have stable employment in the formal sector. According to NAPSA data, only 12.5 percent of all contributors aged 49 years or older have the minimum 180 months of contributions to qualify for a pension. Therefore, the majority of contributors who are close to normal retirement age may still struggle to reach the vesting period¹⁹⁷ and are at risk of not receiving a pension benefit.

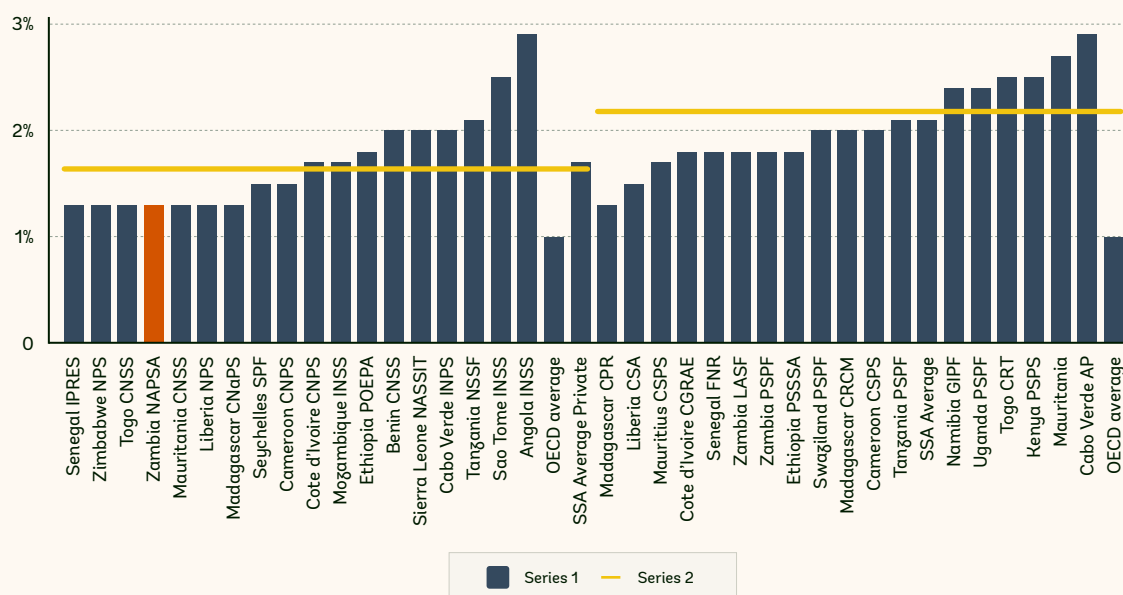
291. Accrual rates in NAPSA are at the lower end compared with Sub-Saharan Africa averages but are high compared to rates in high-income countries. NAPSA's accrual rate of 1.3 percent of salary per year is below the private sector average of 1.7 percent and slightly above the average rate in OECD countries, which are considered international best practice for pursuing fiscal sustainability of the pension schemes (Figure 5.7).

292. In line with international best practice, NAPSA's old age pensions are based on average lifetime wages. In private sector systems, the count of countries basing pensions on final salary or the average of the best few

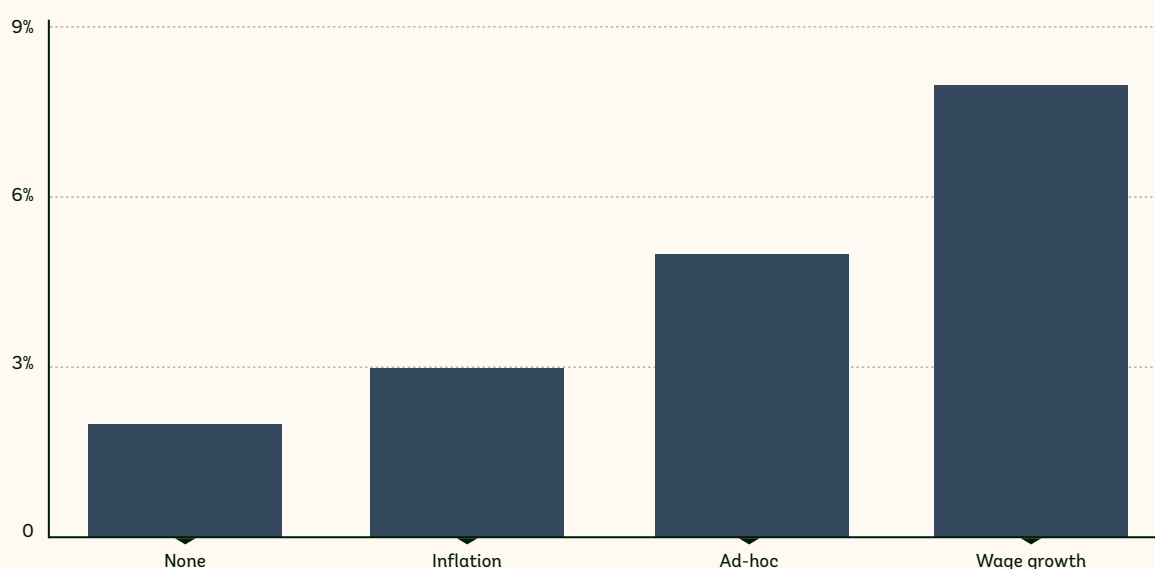
years is still significant. Despite that, the number of years included in the calculation of the wage base tends to be higher than across public pension systems. Basing pensions on lifetime wages is considered to be fairer because for a worker who has paid contributions on earned wages over a lifetime, aligning benefits with contributions would imply that pensions should be based on the average lifetime wage. In addition, pensions based on final salary can be costly to the pension system especially in contexts where substantial promotions may come at the end of a career in which case contributions cannot match benefits.

293. NAPSA pensions are adjusted annually based on changes in national average earnings, which is contrary to international best practice of indexation post-retirement by inflation only. The logic of inflation indexation is that an individual's purchasing power should be maintained from the first day of retirement throughout retirement, however long it lasts (Figure 5.8). When earnings increase more than the general level of prices (which is the case when there are real productivity gains), indexation using average earnings also becomes expensive and threatens the financial sustainability of pension schemes.

¹⁹⁷. Vesting period is the minimum amount of time required to qualify for full and irrevocable ownership of pension benefits.


Figure 5.7: Accrual rates in pension schemes in Africa


Source: World Bank Africa Pension Database.


Figure 5.8: Indexation measure in public sector pension systems across Sub-Saharan Africa


Source: World Bank Africa Pension Database

5.3.2. The Public Service Pension Fund (PSPF)

Financial Performance

294. Since it is common to find separate schemes for defense and security personnel, the focus of the analysis will be on the civil service portion of PSPF. Civil servants are more comparable to private sector workers, in terms of careers and educational profile, than defense and security personnel. Civil servants are currently divided between two pension schemes—those who joined the civil service before 2000 remain in PSPF, while those who joined in and after March 2000 are part of NAPSA. The separation of these two groups potentially generates differences in benefits across cohorts of otherwise similar public sector employees.

295. The total benefit expenditure from PSPF amounted to 0.88 percent of GDP in 2020. The payment of lump sums at retirement, that stemmed from the commutation of pension benefits, represented 56 percent of total PSPF benefit expenditures in 2020. PSPF beneficiaries can choose to commute either one-third or two-thirds of the pension benefit to receive a lump sum. In practice, almost all retirees choose to commute two-thirds of the benefit, thus generating sizable lump sum payments.

296. The commutation factors used by PSPF are more than actuarially fair, which further increases the generosity of the paid-out benefits. In practice, the conversion from a pension to a lump sum is done using a commutation factor, which is often fixed in legislation. The life expectancy of civil servants as a distinct group is typically unknown. What is known across a broad range of countries is that high-income individuals tend to live much longer than lower-income individuals, and African civil servants are typically high-income or upper-middle-income individuals in their respective countries. A preliminary version of a Social Protection Policy Note,¹⁹⁸ which uses data from formal sector workers in Ghana, suggests that mortality rates during retirement may be more than 25 percent lower than UN national averages for males and more than 60 percent lower for females in the formal sector. As a result, even actuarially fair commutation factors based on national life expectancies are likely to produce generous commutations for civil servants. The factors are also often written in law and do not adjust as life expectancy or other pension system parameters change.



Table 5.4: PSPF total benefit expenditures by category

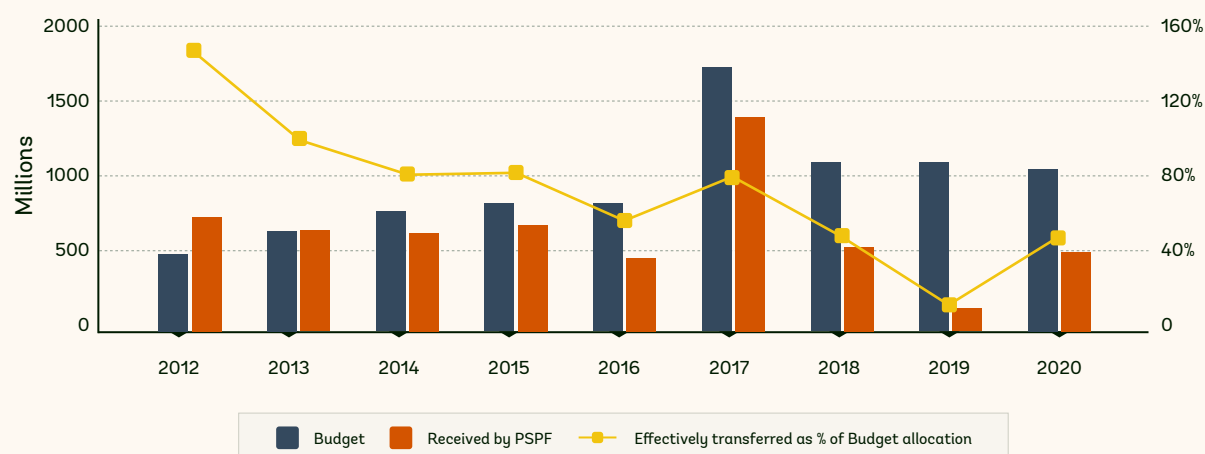
EXPENDITURE BY CATEGORY, YEAR 2020	AMOUNT, K
PSPF civilian annuities: Old age	430,856,643
PSPF civilian annuities: Spouses and guardians	113,711,687
PSPF military annuities: All	225,759,792
PSPF lump sums (both civilian and military)	979,000,000
Total PSPF expenditure on annuities and lump sums (civilian and military)	1,749,328,122
Outstanding as of August 2020 (arrears)	1,221,600,000
Total PSPF expenditure + outstanding	2,970,928,122
Total PSPF expenditure on annuities and lump sums, % GDP	0.88%



Source: PSPF Financial Reports.



Figure 5.9: Budget allocation and fiscal transfers to PSPF



Source: PSPF Financial Reports.

297. PSPF faces liquidity constraints as a result of huge lump sum outlays.

The scheme does not have the financial resources to cover these expenditures and must rely on government transfers to cover the cost of lump sum payments. Each year, the national budget allocates resources from general revenues to PSPF to pay their benefits, which PSPF uses to cover the cost of lump sums, given that they are the most expensive item and represent the largest one-time outlays. However, annual budget allocations are not fully executed to PSPF every year, causing delays in the payment of lump sums.

298. Given that budget allocations are not fully executed each year, PSPF has generated arrears in the payment of lump sum benefits.

Since 2014, the central government has transferred considerably less than what is needed to cover the cost of PSPF lump sum payments, generating an accumulation of arrears that adds up to more than K1.2 billion in August 2020 (Figure 5.9). Furthermore, although civil servants may reach the statutory retirement age, file for retirement and start receiving the annuity benefit, the current legal interpretation of the Constitution considers them not retired until they receive the lump

sum payment corresponding to the commuted benefit. The implication of this interpretation is that a civil servant must remain on the payroll, generating additional fiscal costs in the process.

299. Annual lump sums are sizable, concentrated on a small number of beneficiaries and generate high fiscal costs.

In 2020, around 2,000 individuals received a total amount of K 979 million in lump sums, which corresponds to 0.3 percent of GDP. The average lump sum received per person was around US\$23,400. Despite these numbers, as of August 2020, there were 1,455 pending cases and lump sum in arrears adding up to 0.36 percent of GDP (Table 5.5).

300. Zambia's PSPF overall expenditures are on par with other Sub-Saharan Africa public sector funds and falls below the Sub-Saharan Africa public sector pension fund average of 1.2 percent of GDP.

However, this does not mean that the financial performance of PSPF is strong. Lump sum benefits comprise more than half of all pension expenditure on benefits. In addition, in August 2020, PSPF had outstanding pension benefits (pension arrears) equal to approximately 70 percent of pension payments made in 2020 (Figure 5.10).


Table 5.5: Historical account of PSPF lump sum payments

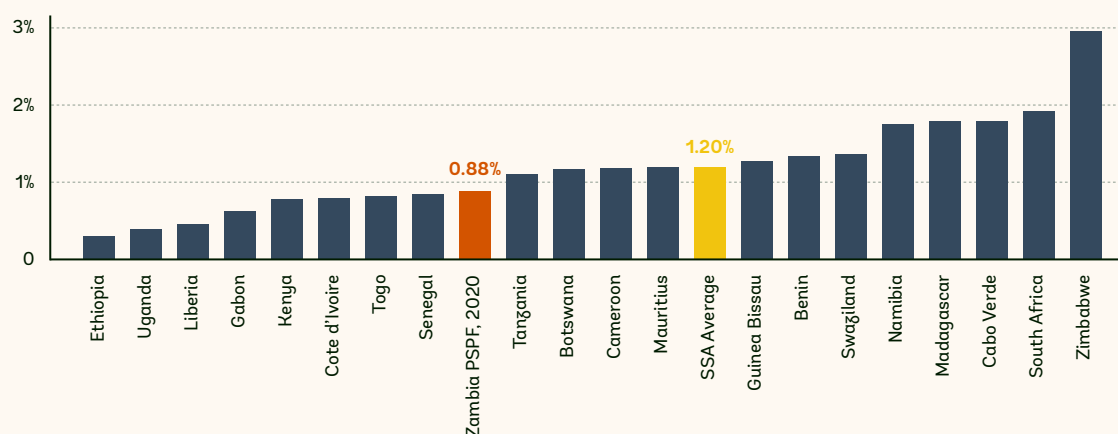
SPENDING	2016	2017	2018	2018	2020	OUTSTANDING AS OF AUG 2020 (ARREARS)
Statutory and early retirement cases spending, million K	662.1	1,510.70	622.5	96.5	979	1,222
Spending % GDP (current prices)	0.31%	0.61%	0.22%	0.03%	0.29%	0.36%
Cases (pensioners)	1,817	3,138	1,202	184	2,007	1,455
Spending per case, K	364,392	481,421	517,887	524,457	487,793	
Spending per case, USD	17,491	23,108	24,859	25,174	23,414	



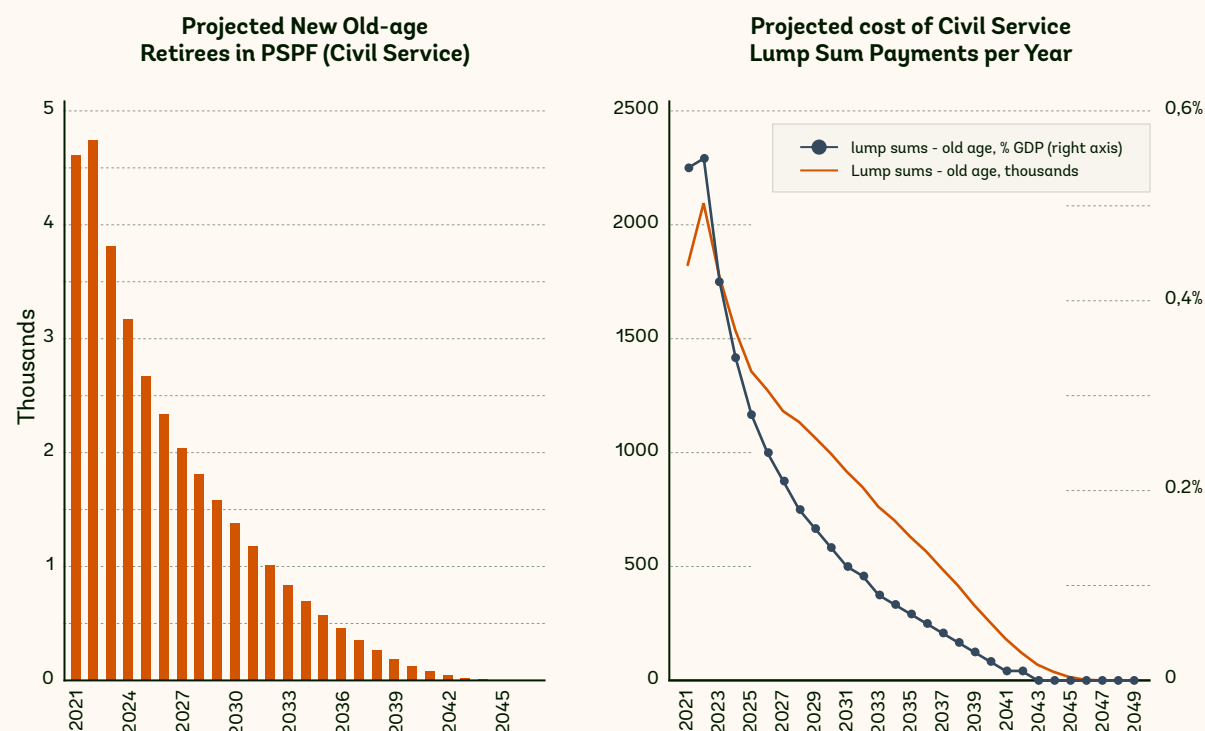
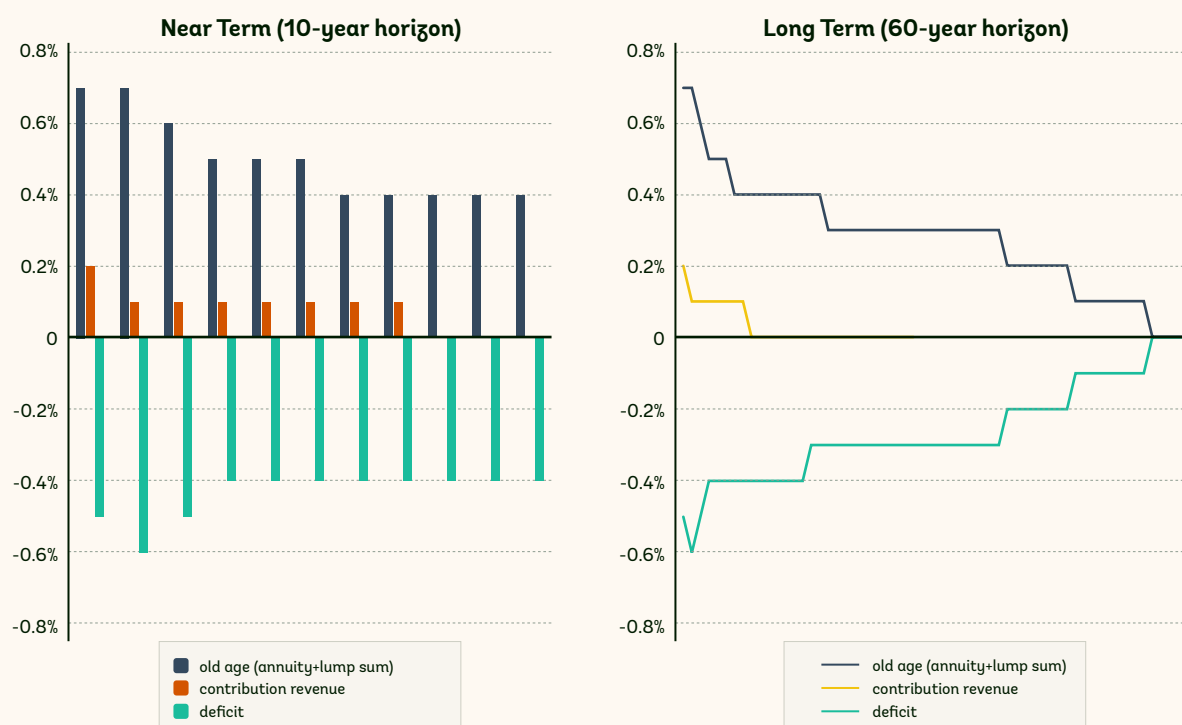
Source: PSPF data

301. Although PSPF has not enrolled new civil servants since 2000, a sizable number of individuals are expected to retire in the coming years, maintaining the financial situation projected today. The total number of new retirees is expected to peak in 2022, but PSPF will still face new retirees for at least another 20 years, with their corresponding lump sum payments. The cost of lump sum payments per year is expected to peak at 0.6 percent of GDP by 2022 (Figure 5.11). Since PSPF is unable to pay the full amount of lump sums generated each year, the cash flow of lump sum payments is expected to continue at a higher level and for a longer period of time than what is shown in these projections in the long run.

302. Given the financial situation of PSPF, the civil service pension scheme will continue to generate annual deficits, with the corresponding fiscal cost generated to cover the financing gap. Deficits from civil service pensions are expected to reach 0.6 percent of GDP by 2022 and then decrease to levels between 0.32 percent and 0.38 percent of GDP between the years of 2027 and 2052 (Figure 5.12). Only after this period are deficits expected to decrease and exhaust by 2080. Therefore, the civil service scheme of PSPF will be a long-term source of fiscal expenditure.


Figure 5.10: Public sector pension system expenditure, % GDP


Source: World Bank Africa Pension Database.


Figure 5.11: Projected new retirees and cost for civil service scheme in PSPF

Figure 5.12: Projected Fiscal Flows, PSPF Civil Service Scheme


Source: PROST simulation based on PSPF data.

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303. PSPF provides pension benefits to two main categories of public sector workers: civil service and defense and security personnel. Since 2000, the scheme has been closed to new members of the civil service (including teachers and judges). However, defense and security personnel still join PSPF, which means that the evolution of these two groups have different implications for the finances and functioning of the scheme. The total of 93,848 active members represents 35 percent of employment in Central Government in 2019.

304. Civil service members account for almost 50 percent of total active members of PSPF and 75 percent of total pensioners. Annuity payments to civil service retirees, including old age, spouses and guardians, represent 70 percent of all PSPF annuity payments.

Adequacy

305. Civil servants who remain in PSPF are entitled to significantly higher benefits than those who joined NAPSA. For example, an individual who joined the public sector in January 2000 remains in PSPF, while an individual with the same salary profile who joined in March 2000 joins NAPSA. If both these individuals retired in 2020, after 20 years of service and assuming an average wage growth of 3 percent, the difference in rules between both schemes result in a pension benefit that is 76 percent higher for the person retiring from PSPF than the one retiring from NAPSA. After 30 years of service, the PSPF pension can be three times higher than the NAPSA pension for high wage growth cases (Table 5.6). After 21 years of service, the PSPF retiree would obtain a 50 percent replacement rate with respect to her average lifetime salary (before commuting), while the NAPSA formula only provides a 28 percent replacement rate in this case. While PSPF members pay a higher contribution rate than NAPSA members, the difference does not compensate for the significant disparity in benefits, as the net salary would only be 5.2 percent higher for a NAPSA member. Furthermore, PSPF beneficiaries can opt to commute their pension under generous terms, obtaining a sizable lump sum paid at retirement, a benefit option unavailable to NAPSA members.

306. Both of Zambia's public sector systems permit commutation of pension benefits which goes against regional trends and international best practice. Commutation—a legacy of British colonial rule—compromises both pension adequacy and fiscal sustainability of pension systems. Making matters worse, public pensions in Zambia have generous and dated commutation factors (factors are fixed in legislation and have not been revised for decades) which do not reflect the actual life expectancy of public sector workers, making them more than actuarially fair. This makes the practice extremely expensive and it compromises retirement income adequacy later in life. A few Anglophone countries, including Tanzania, Zimbabwe and Kenya, still permit commutation, while others such as Ghana are doing away with the practice. Liberia and Sierra Leone which are also Anglophone do not have commutations. None of the Francophone countries in Sub-Saharan Africa have commutation. As mentioned earlier, Zambia's private sector scheme, NAPSA, does not include the option of commutation.

307. In addition to increasing costs, commutation of pensions also increases the likelihood that civil service pensioners will face poverty at the end of their life spans. Commutation, a common feature of colonial expatriate benefits, allows individuals to take a portion of their pension as a lump sum at the beginning of their retirement period. For expatriate civil servants, this was often an important feature which allowed them to purchase a home in their homeland after having served abroad during their working years. Technically, individuals who choose commutation should receive the present value of the portion of their pension that is commuted based on the average life expectancy at the time of commutation. Since the commutations are typically spent right away, the pension available for the retiree is reduced; if the retiree lives a long time, she may find herself facing poverty.

308. Due to the frontloading of benefits, adequacy of pension annuities is below what is recommended to maintain adequate living standards in retirement. While the International Labour Organization (ILO) recommends a target replacement rate of 40 percent of wages



Table 5.6: Ratio of PSPF pension vs. NAPSA pension for individuals with the same wages throughout their careers

PSPF PENSION / NAPSA PENSION			
Average wage growth per year (assumption)			
Years of service	Scenario I: 3%	Scenario II: 5%	Scenario III: 7%
15	1.65	1.86	2.08
20	1.77	2.07	2.39
25	1.89	2.29	2.71
30	2.01	2.52	3.06



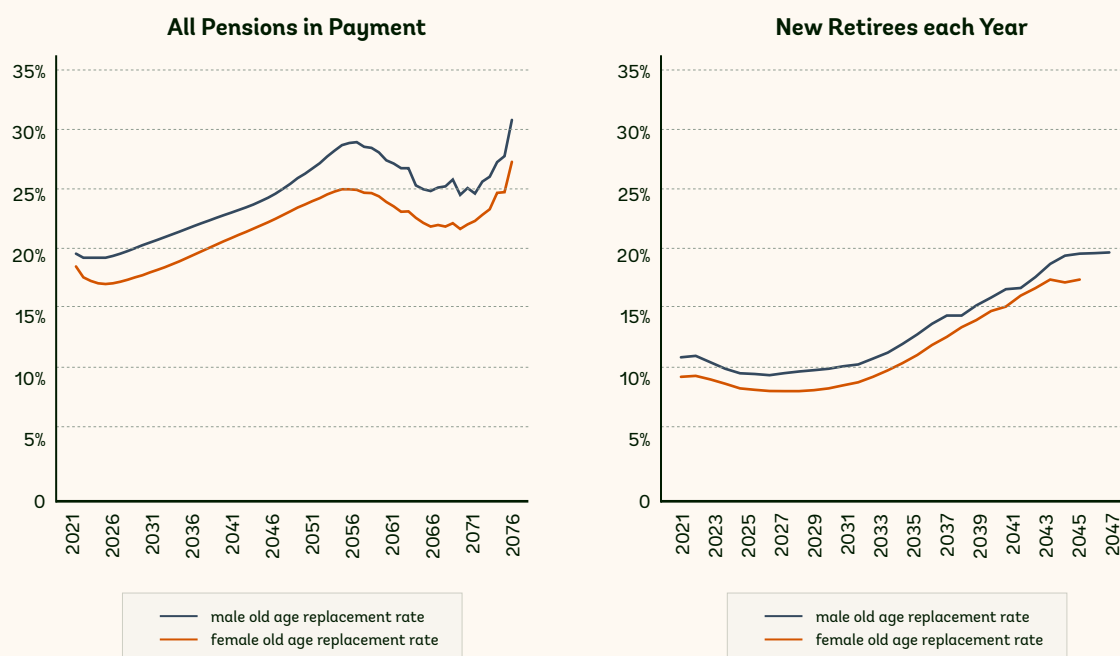
Source: World Bank Staff, based on NAPSA and PSPF benefit formulas.

after 30 years of service,²⁰⁰ observed replacement rates (measured as average pensions in payment as percentage of average wages for all retirees) are projected to fluctuate between 20 percent and 30 percent in the future. The average pensions taken in this calculation correspond to annuities paid and

therefore this measure does not include total benefits including commutation. Furthermore, replacement rates of annuity payments for each cohort that will be retiring in the future (new retirees) are projected to be even lower, at levels between 10 percent and 20 percent (Figure 5.13).



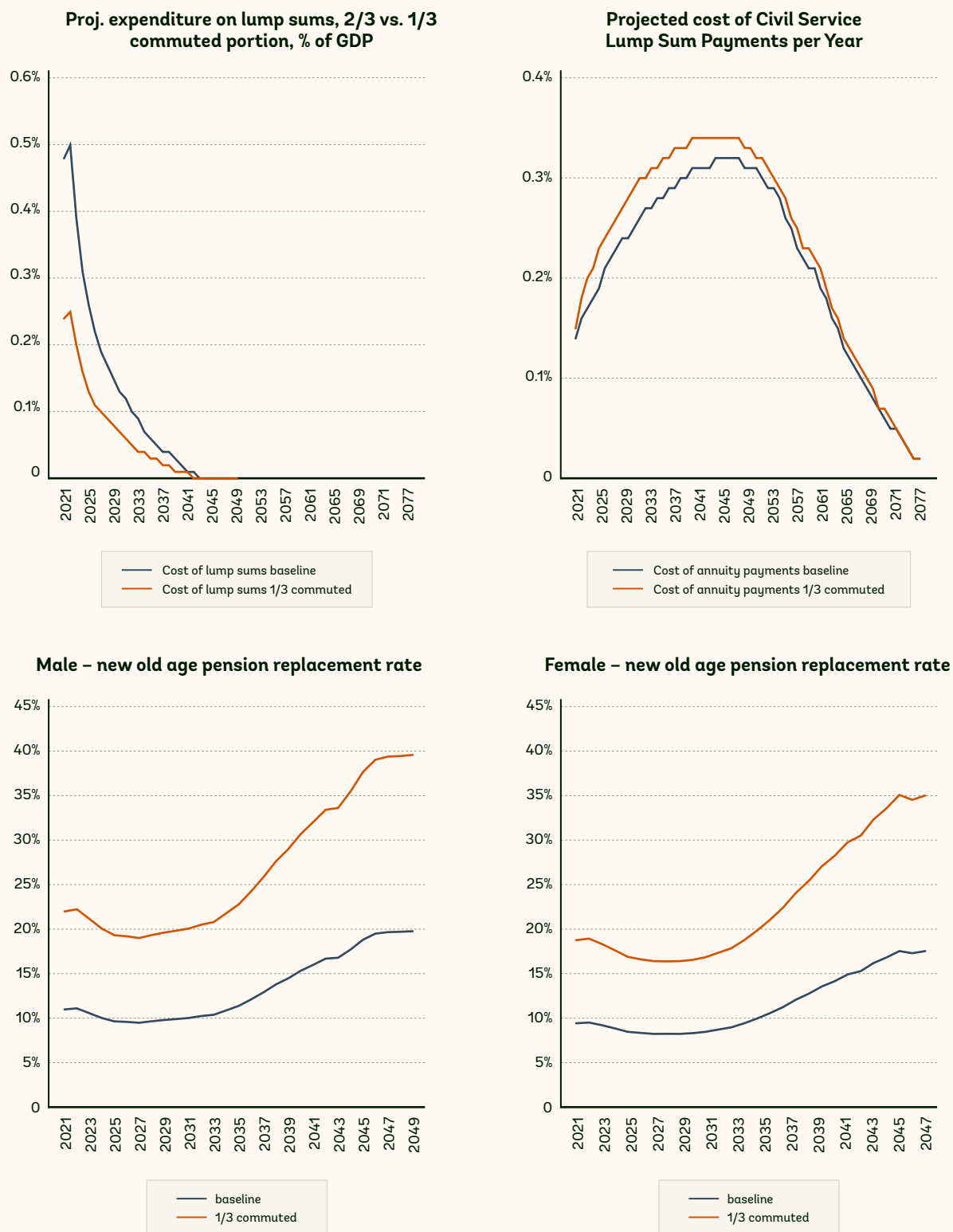
Figure 5.13: Projected old-age replacement rates, average old-age pension as a share of average covered civilian PSPF unisex wage



Source: PROST simulation based on PSPF data.

200. See ILO Social Security (Minimum Standards) Convention, 1952(No. 102)

Figure 5.14: Effects of changing maximum commutation amount



Source: PROST simulation based on PSPF data.

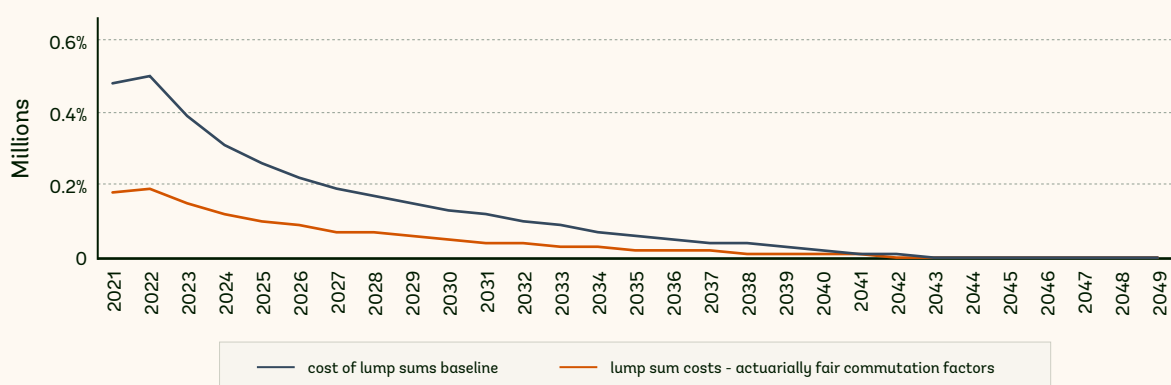
309. If all new retirees commuted one-third instead of two-thirds of benefits, lump sum payments would be cut in half, with a sizable increase in pension adequacy and a small increase in annuity payments. By 2022, the cost of lump sum payments would only be 0.3 percent of GDP against 0.5 percent of GDP, while annuity payments would only increase from 0.16 percent to 0.18 percent of GDP the same year. The highest increase in the cost of annuity payments would be from 0.31 percent to 0.34 percent of GDP by 2044 (Figure 5.14). However, replacement rates for new retirees would double, reaching levels between 35 percent and 40 percent for the last retiring cohorts of civil servants from PSPF.

310. Adopting an actuarially fair commutation factor would significantly reduce lump sum payment costs, without affecting annuities. As discussed above, commutation factors used to calculate the lump sum benefits of retirees who commute their pensions are likely outdated and therefore provide a more than actuarially fair conversion. If an actuarially fair factor were implemented, based on estimates of current life expectancy at retirement for civil service workers,²⁰¹ lump sum payments would be less than half of what is observed in the baseline scenario using current factors, without any other change in rules and no effect on annuities (Figure 5.15).

311. A strict legal interpretation of the Constitution has impeded PSPF from introducing reasonable reforms that would reduce pension costs, increase the sustainability of the scheme, reduce fiscal pressures, and improve equity of social spending in Zambia. A legal opinion from the Ministry of Justice in January 2020,²⁰² based on the new Zambian Constitution enacted in 2016, states that pension plan conditions cannot be changed in any form for any current member of the pension plan unless it is in favor of the member. This interpretation negates a set of reforms that are common in other countries such as reducing accrual rates, transitioning towards lifetime earnings as the base salary for benefit calculations or adjusting commutation factors to reflect current demographic conditions, even if accrued rights are preserved (i.e. reforms do not have retroactive impact and affect current members only from the point in time they are implemented forward). While this interpretation is intended to protect the rights of pension plan members, it affects the broader performance of the state. Fiscal responsibility and equity of social spending are threatened by this legal interpretation of the Constitution as it imposes significantly higher fiscal costs in the long run and disproportionately concentrates fiscal resources on a small group of public sector retirees to the detriment of more needy and vulnerable segments of the population.



Figure 5.15: Current vs. actuarially fair commutation factors – projected expenditure on lump sums



Source: PROST simulation based on PSPF data.

201. The actuarially fair factors estimated at age 55 are 9.6 for men and 10.1 for women, compared with the currently used 25.8 as stipulated in Section 52 of the PSPF legislation.

202. Ministry of Justice, Office of the Attorney General, "Legal opinion on the Pension reforms Vis-à-vis the Recommendations made by the Ministry of Labour and Social Security", MOJ/101/7/18, 23rd January 2020.

5.3.3. The Local Authorities Superannuation Fund (LASF)

Financial Performance

312. Started in 1954, LASF is a benefit scheme responsible for the pension coverage of employees of local authorities (councils, water and sewerage, ZESCO and the National Housing Authority). A statutory provision exists for other members to be admitted. The Act is numbered Cap 284 in the Laws of Zambia. Since February 2000, LASF has stopped receiving new members and only manages the contributions and pensions for the closed set of existing members and their beneficiaries.

313. Although operating at much smaller scale than NAPSA and PSPF, LASF generates a deficit due to the small number of remaining contributors. Total expenditures on pension benefits in 2019 were K126.9 million (0.04 percent of GDP), while total contribution income was only K77.5 million. LASF experienced a net operational loss of K34.2 million in 2019.

314. As with PSPF, LASF is unable to finance the significant lump sum payments dictated by its generous commutation parameters. More than two-thirds of total benefits paid in 2019 correspond to retirement lump sums arising from commutation, while less than a quarter corresponds to annuities. Since LASF is unable to cover all benefit payments, LASF retirees face significant delays in pension payments and the government has started to make transfers to LASF as the sponsor of the scheme.

315. In 2019, the government treasury transferred K251 million to LASF to help pay retirees' outstanding pension benefits. This was the second such transfer after a K150 million

allocation made in 2017. At the moment of that transfer, it was estimated that as of July 31, 2019, LASF owed 14,709 retirees K555 million. As contributing members start retiring, LASF will soon become a payment entity exclusively, with no available assets to cover payments, reliant only on government budget.

316. For an institution that operates at relatively small scale, with a low number of contributing members, LASF exhibits high administrative costs. Administrative expenses totaled K85 million in 2018 and K67.2 million in 2019. These figures correspond to 38 percent of total assets and 77.4 percent of benefits paid in 2018, and 17.4 percent of assets and 53 percent of benefits in 2019 (Table 5.7). Most of the administrative expenses (53.5 percent in 2019) correspond to personnel costs (salaries, wages and allowances).

317. The financial situation of LASF is bleak, with liabilities that surpass available assets, both in current and actuarial terms. In 2019, LASF net assets were negative, with net liabilities amounting to K 223 million, even after accounting for the K251 million transferred from the government. The actuarial deficit by 2019 was estimated at K1,658 million, considering accrued liabilities to active members and pensioners. Despite the scheme winding down, LASF pension expenditures will continue for the long term. The normal retirement pension expenditures will continue to increase until around 2048, reaching 0.027 percent of GDP. This shows that the bulk of pension benefits from LASF comprises lump sums at retirement (Figure 5.16).



Table 5.7: LASF administrative costs (in K and as % of assets and benefits paid)

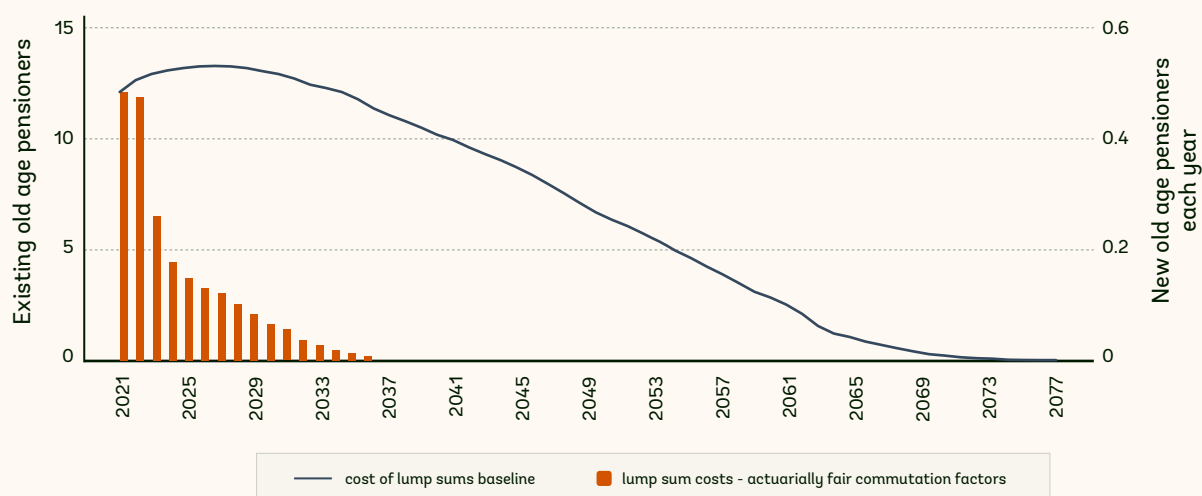
LASF COSTS	2018	2019
Total assets	223,080,657	387,072,797
Benefits paid	109,915,857	126,939,851
Administrative expenses	85,063,916	67,237,866
Admin. cost as % of assets	38.1%	17.4%
Admin. costs as % of benefits paid	77.4%	53.0%



Source: LASF administrative data.



Figure 5.16: Projected expenditures normal retirement pension expenditures (annuity plus lump sum) % GDP



Source: PROST simulation based on PSPF data.

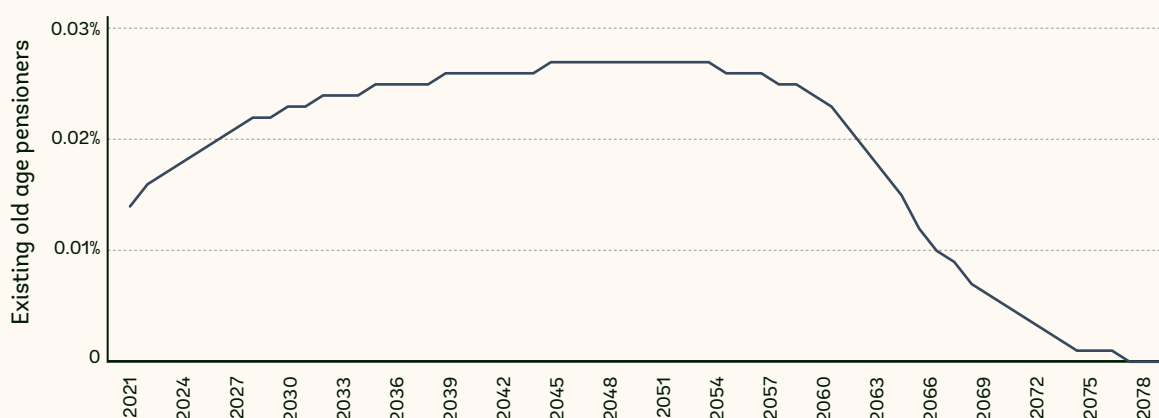
Coverage

318. LASF's coverage is limited to the remaining employees covered by the LASF Act before February 2000. No new entrants were supposed to join LASF since February 2000 and it became a closed scheme. As of December 2019, LASF had a total of 3,271 members and 13,309 pensioners, including 1,262 survivor pensions. More than half of LASF members (53.5 percent) are in the 51-55 age group and are therefore close to retirement (Figure 5.16).

319. Given the age structure of LASF membership, the bulk of new retirees will be concentrated over the next two or three years. The total number of normal retirement pensioners is expected to peak around the year 2028 at approximately 12,400 (currently there are 10,812). While the number of new retirees and the corresponding administrative burden of pension claims processing will become negligible after 2040, payment of pensions will continue well into the long run, until 2080 approximately (Figure 5.17).



Figure 5.17: Retirement pensioners, thousands



Source: PROST simulation based on PSPF data.

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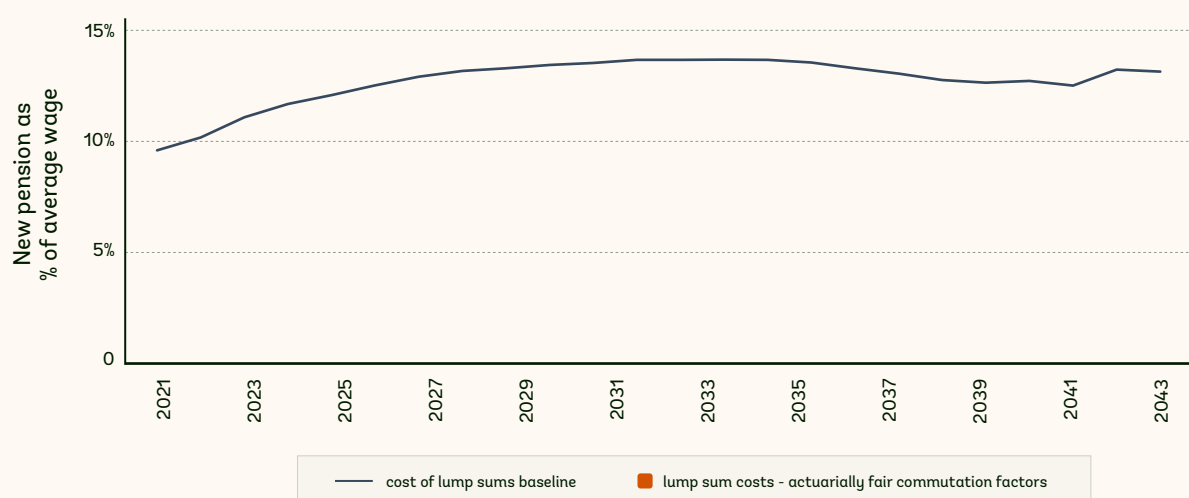
320. Given the high commutation options, adequacy of pensions will continue to be low in the future. Replacement rates will continue to be low, between 10 percent and 14 percent of average wages for new retirees in the foreseeable future (Figure 5.18). This is a result of LASF benefits being comprised mostly of lump sums at retirement, with modest income protection in the form of annuities throughout the post-retirement period.

321. Given LASF's evolving membership, future pension obligations, and high administrative costs, options such as merging LASF with another pension agency such as NAPSA could be considered. Over the next 10 years, the main function of LASF will be to settle pension

claims and make pension payments. There is no pension fund management or investment function. A stand-alone agency operating at small scale, such as LASF, incurs high administrative costs to perform these functions. An administrative merger with another agency that performs similar functions could be considered if this action would reduce average costs. However, any merger should not impose additional costs or funding requirements on the receiving institution to avoid a situation such as what NAPSA is currently experiencing with the funding of ZNPF benefits from the NAPSA pension fund. Therefore, the government should plan to cover all LASF liabilities and allocate resources earmarked for this purpose before any administrative merger.



Figure 5.18: Projected replacement rates in LASF new old age normal retirement



Source: PROST simulation based on PSPF data.

5.4.

COVERAGE OF THE INFORMAL SECTOR: POSSIBILITIES AND INCIPIENT INITIATIVES

5.4.1. Analysis of the informal sector's resilience to shocks

322. Using data from the Living Conditions Monitoring Survey (LCMS), a representative household survey, Zambian households are classified by their poverty status, attachment to the formal sector, exposure to economic shocks and ability to cope with them. The typology is intended to guide the design and targeting of schemes including pension instruments for the informal sector, or insurance against shocks related to health, climate, or other events. The last two waves of the survey were collected in 2010 and 2015—they reflect the pre-COVID-19 situation.

323. A simple typology of social protection needs, obtained by combining the concept of resilience with information on the poverty and formality status of the household, is elaborated in Figure 5.19.²⁰³ Households are classified into four groups. At one end of the spectrum are “formal households” that are already participating in the formal sector. At the other end are “poor households” which live below the poverty line. The typology splits the remaining “missing middle” of informal and nonpoor households into “resilient” and “nonresilient” groups. Households were classified as “resilient” if they coped by drawing from their own savings, borrowing from different sources, seeking help from their networks, or temporarily increasing their labor supply. On the other hand, households were classified as “nonresilient” if they resorted to reducing food consumption, fire-selling productive assets, taking kids out of school, or migrating.

324. Informal, nonresilient households struggle to respond to economic shocks which reveal constraints in the amount of liquid funds they can mobilize in an emergency. They are likely to greatly benefit from insurance programs that would cover the risks they face, whether related to sickness, work injury or agricultural output. At the same time, they are unlikely to be able to afford to pay regular contributions to social insurance, since these payments would eat into the disposable income and savings they can avail themselves of in case of emergency. Therefore, these households are a natural target for subsidized social insurance programs.





325. Informal, resilient households either face few shocks or have enough savings to smooth their consumption if hit by one. Their assets and savings, or their ability to borrow, provide them with a cushion against fluctuations in earnings. Some of them may attempt to accumulate savings for their own old age or some other long-term objective. These life cycle savings may be stored or invested suboptimally, exposed to theft or predation from family members or yielding low returns. For all these reasons, this group is the most likely to benefit from the opportunity to contribute to a pension program. However, the rules governing contributions and benefits would still need to be adapted to the characteristics of informal employment.²⁰⁴

203. Poverty status is assessed by comparing a household's per capita expenditures with the corresponding national poverty threshold. Formality is defined by looking at whether the main job reported by the head of the household and their spouse carries work benefits. If either spouse works formally then the household is classified as formal. Appendix B provides additional information on the measure of formality used here.

204. See Guven (2019) Extending Pension Coverage to the Informal Sector in Africa. SPJ Discussion Paper No. 1933, The World Bank.



Figure 5.19: A simple typology of social protection needs

HOUSEHOLD TYPE	CHARACTERISTICS	SOCIAL PROTECTION NEED
 Poor	At/near subsistence level	Social assistance
 Informal, non-resilient	Vulnerability to shocks Liquidity constrained	Subsidized social insurance
 Informal, Resilient	(Self-)insured against shocks, Ability to long-term save	Voluntary/incentive-compatible contributory social insurance
 Formal	Contributes to social insurance	Mandatory social insurance

Missing Middle

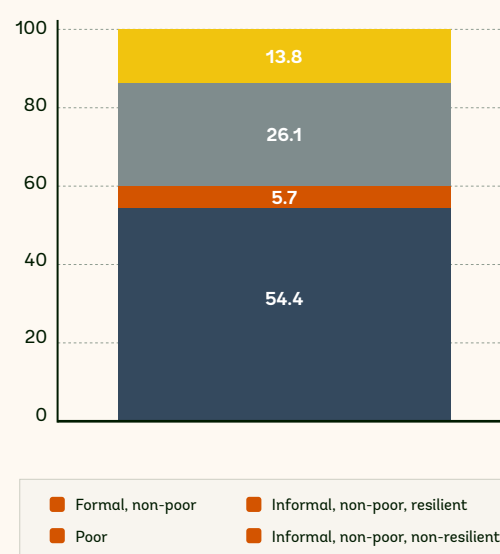


Source: Adapted from Guven, Brodersohn, and Joubert (2018)

326. Applying this classification to the households surveyed in 2015 yields 13.8 percent of nonpoor formal households, 54.4 percent of poor households, 26.1 percent of nonpoor, resilient informal households and 5.7 percent of nonpoor, nonresilient informal households (Figure 5.20). While current pension schemes focus on the 13.8 percent of households that are classified as formal, this analysis suggests that there is an additional 26.1 percent of households that are uncovered but would have some savings capacity, given their observed resilience to shocks.



Figure 5.20: Classification of households according to observed formality and resilience



Source: Analysis based on 2015 LCMS.



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5.4.2. Informal sector pension initiatives from NAPSA and the private sector

327. Data from the 2017 Global Findex Survey for Zambia shows that there is scope for providing formal vehicles for old-age savings to the informal and vulnerable populations in Zambia.

The survey showed that 8 percent of respondents declared that they had saved for old age in the last 12 months. Among the richest 20 percent of the population, 15 percent saved for old age; however, savings for old age were not high in the remaining segments. There was, however, a nonnegligible 8 percent saving for old age among the poorest 20 percent. In this poorest quintile, among those who declared to be saving for old age, only 13 percent used a financial institution while 60 percent used informal savings clubs. On the contrary, among the richest quintile, more than 55 percent used a financial institution and only 37 percent used informal savings clubs. These results suggest that while poor households have demand for long-term savings, they lack access to formal channels to do so.

328. NAPSA launched Extending Social Security Coverage to the Informal Sector (ECIS) in 2017 to extend pension coverage to workers in the informal economy. ECIS focuses on five priority sectors: domestic workers; sawmill workers; marketeers and traders; small-scale subsistence farmers (less than 20 ha); and bus and taxi drivers. NAPSA has taken a two-pronged approach: workers who do not traditionally pay contributions but are in an employment relationship with an employer will be included in the existing scheme, while a new special scheme will be launched for informal workers that work independently.²⁰⁵

329. The standard pension scheme for formal workers is extended to those groups of informal workers for which an employer-employee relationship can be identified. This is the case for domestic workers, permanent employees of sawmills, and drivers hired by a bus or taxi fleet owner. Outreach campaigns were launched to inform these informal wage earners of the social insurance benefits to which they were entitled under the NAPSA Act. In 2018 and 2019, targeted campaigns informed domestic

workers of the legal obligation of an employer (household) to register a domestic worker with NAPSA and contribute to their pension. The registration can be done either using e-NAPSA online platform²⁰⁶ or by completing employer and member registration forms obtainable from any NAPSA office or downloadable from the NAPSA website. Employers of domestic workers must use the e-NAPSA online platform to remit contributions on behalf of the workers. NAPSA estimates that around 18,000 new members registered as of end-2019 as a result of the ECIS project campaign.²⁰⁷

330. The new pension scheme created specifically for the self-employed in the informal sector will operate in parallel to the existing scheme and requires additional regulations. The new scheme will cover workers that operate independently such as sawmill occasional contractors, marketeers and traders, small-scale subsistence farmers, and independent bus and taxi drivers. To establish a legal basis for the extension, a dedicated statutory instrument was adopted in November 2019, as the informal pension scheme rules did not fit the framework of the original NAPSA act. In addition, NAPSA has implemented a special administrative unit, dedicated to developing and implementing this new scheme. NAPSA has signed memoranda of understanding with at least eight informal sector associations in specific industries to enlist their help with promoting the new scheme and registering informal workers.

331. The new scheme provides more modest benefits, but it also requires significantly lower contributions from members. The benefit formula for the self-employed scheme shares the same vesting period and retirement age as the standard scheme. But the guaranteed minimum pension is only one-third of the standard scheme's minimum pension. In exchange, informal workers can accrue contributions as long as they pay a minimum of K50 per month, or, alternatively, K2 per day toward the self-employed scheme. In addition to the old-age pension, the self-

²⁰⁵. This work has been supported by Technical Assistance from ILO. See, for example, Phe Goursat, M. and Pellerano, L. (2016) "Extension of social protection to workers in the informal economy in Zambia: lessons learnt from field research on domestic workers, small scale farmers and construction workers", International Labour Organization, Lusaka.

²⁰⁶. Since 2017, NAPSA created an online platform, e-NAPSA, to pay contributions and monitor accumulated pension rights.

²⁰⁷. NAPSA Dates Copperbelt Informal Sector Workers, <https://www.napsa.co.zm/napsa-dates-copperbelt-informal-sector-workers/>

employed scheme includes survivorship and invalidity benefits as well as short-term benefits designed to increase participation: maternity benefit, family funeral benefit, and access to micro-loans from partner banking institutions.

332. The self-employed and formal NAPSA schemes are independent of each other and there is no cross-subsidization between them. However, upon retiring, informal workers with contributions in both schemes can opt to convert their contributions accumulated in the self-employed scheme into standard scheme contributions at a rate of 2:1 or instead receive separate benefits calculated from their contributions in each scheme.

333. The new scheme is being piloted with targeted groups of workers (saw millers, bus and taxi drivers, and small-scale farmers). The registration campaign was put on hold due to the COVID-19 pandemic, but it has recently resumed, and registration agents are currently in the field. Based on the results of the pilot, the informal pension scheme could be extended to all self-employed workers, possibly allowing for industry-specific levels of contributions and benefits.

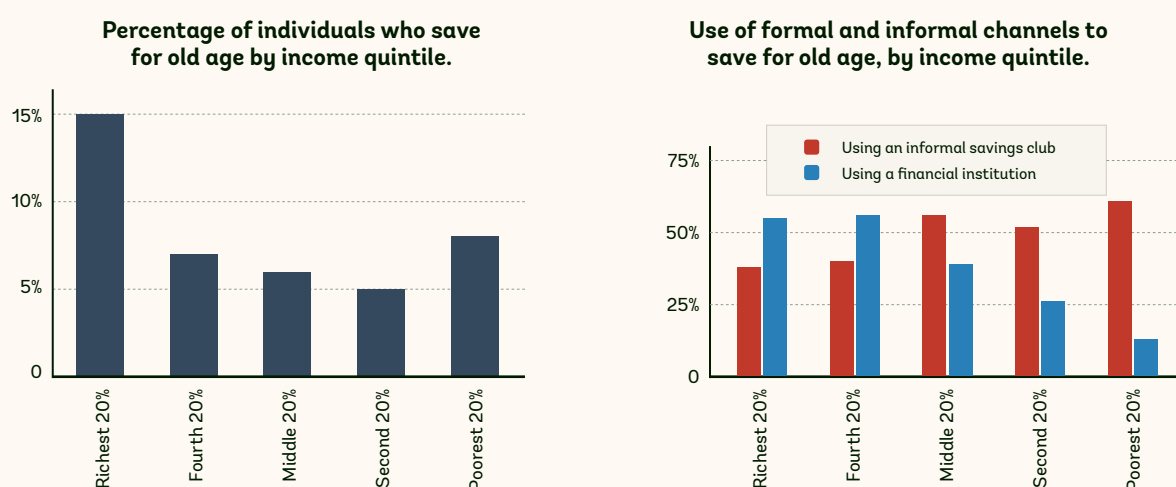
334. NAPSA should implement a strong monitoring and evaluation system to quantify the impact of its coverage extension initiatives. Overall, the target groups identified by NAPSA are well aligned with the informal workers that were classified as the most likely to participate in social insurance

schemes given their resilience to shocks. This speaks well of the preparatory work done by NAPSA and the technical assistance provided by ILO in identifying these target groups. It is still early to assess the results of these efforts and more information should be captured about the number of workers that register in NAPSA through the extension of coverage in the traditional scheme (already in implementation) and through the new scheme, when it is operational.²⁰⁸

335. In the context of the Pensions Working Group (see Section 5.5 below for more details), the private sector occupational plan providers are also developing a strategy to provide pension coverage to the informal sector. This is an incipient initiative and the first step has been a survey undertaken to analyze alternative instruments and gauge the appetite from the informal sector to participate in pension schemes. These schemes would be pension products aligned with what has been observed in other African countries: savings products based on voluntary contributions, facilitated by digital channels and the use of mobile money, and providing some liquidity and associated benefits. At the time of this report, the results of the survey are not public and therefore no assessment can be made on their feasibility or planned implementation. However, PIA is in charge of coordinating this effort and monitoring its development.



Figure 5.21: Incidence of old-age savings and use of formal and informal channels by income quintile



Source: Global Findex data 2017.

208. Available figures are based on “informal” assessments and the administrative records that were used in this report did not allow quantifying the number of new informal workers registered with precision.

5.5.

PENSION REFORM OPTIONS: GOVERNMENT AGENDA AND RECOMMENDATIONS

5.5.1. Government's pension reform plans

336. Pension reform has long been on the government's agenda. Back in 2012, the Zambian authorities constituted a technical committee that issued a draft report for Zambia's mandatory contributory pension schemes, which was endorsed by the Cabinet in 2013. Around 2017, the government formed a technical committee—the Pensions Working Group—with relevant stakeholders from government, pension agencies, employers, and unions to discuss pension reform proposals.

337. The Pensions Working Group has elaborated a reform proposal that envisions a tiered system for Zambia. In this tiered system, NAPSA would be the main provider of pensions for all workers with a target replacement rate of 40 percent. LASF and PSPF would assume the role of occupational plan providers for public sector employees with a target replacement rate of 20 percent, co-existing with the current occupational pension plan providers in the private sector. An additional third tier of voluntary pensions would increase the target replacement rate to a total of 80 percent (Figure 5.22).

338. The new scheme would allow both PSPF and LASF to start receiving new members from the public sector. After inception of NAPSA in 2000, PSPF only received new members from the military and security branches, while LASF stopped receiving new members altogether. A recent legal opinion from the Attorney General²⁰⁹ has indicated that the enactment of the NAPSA Act does not preclude PSPF and LASF to receive new members, since they are considered occupational pension schemes, while NAPSA is a national scheme covering both private and public sectors. Consequently, under the government's pension reform plans, both PSPF and LASF would start receiving new members who would be covered both by NAPSA in the first tier and

by PSPF (if public sector employee) or LASF (if local authority or utility employee) in a second tier. Existing public sector and local authorities' employees only covered by NAPSA could join the new scheme voluntarily if they are younger than 45 years of age.

339. PSPF and LASF new schemes would be independent of their current schemes and will feature similar design. The new scheme will be open only for new members and complement the benefits from NAPSA. Current members will remain in the existing schemes, under the rules detailed in Table 4.8, until retirement. Both new schemes contemplate a total contribution rate of 5 percent and a target replacement rate of 20 percent with a maximum 10 percent of commutation of benefits. However, PSPF is considering a 6.5 percent contribution rate and proposing a minimum vesting period of 10 years and an accrual rate of 0.5 percent per year, while LASF is contemplating a 5 percent contribution rate, minimum vesting period of 15 years and an accrual rate of 1/120 (0.833 percent) per year. PSPF's plan uses a career average wage updated by inflation as the reference salary for benefit calculation, while LASF will use the average last five years. Both schemes anticipate indexation of pensions, at 9 percent of inflation in the case of PSPF and according to average covered wages subject to actuarial advice in the case of LASF.

340. The government is currently adjusting its proposal after seeking legal opinion from the Ministry of Justice in 2020. Based on the new Zambia Constitution enacted in 2016, the Ministry of Justice stated that pension plan conditions cannot be changed for any current member of the pension plan unless it is in favor of the member. Given this, the government is reviewing its reform proposal and working on a phased approach, focusing on clearing the liabilities of the current

209. (MOJ/101/718).

pension institutions, followed by a consolidation of legislation in the second phase, and a harmonization of institutions in the third phase.

341. The government reform plans are in line with the consolidation of the pension system that started with the introduction of NAPSA in 2000. It is apparent that the intention of the policy makers in enacting the NAPSA Act was to consolidate all private and public sector workers (except defense and security personnel)

under one pension provider. However, the rollout of enrollment applying only for new entrants and the resistance of public sector workers to enroll in a pension scheme that provides far less generous benefits has delayed the realization of this vision. Institutional resistance to change could also be playing a role in the reform options under discussion, the new schemes anticipate opening up LASF and PSPF to new members to continue their operations in the long run.



Table 5.8: Design elements of proposed new schemes in PSPF and LASF

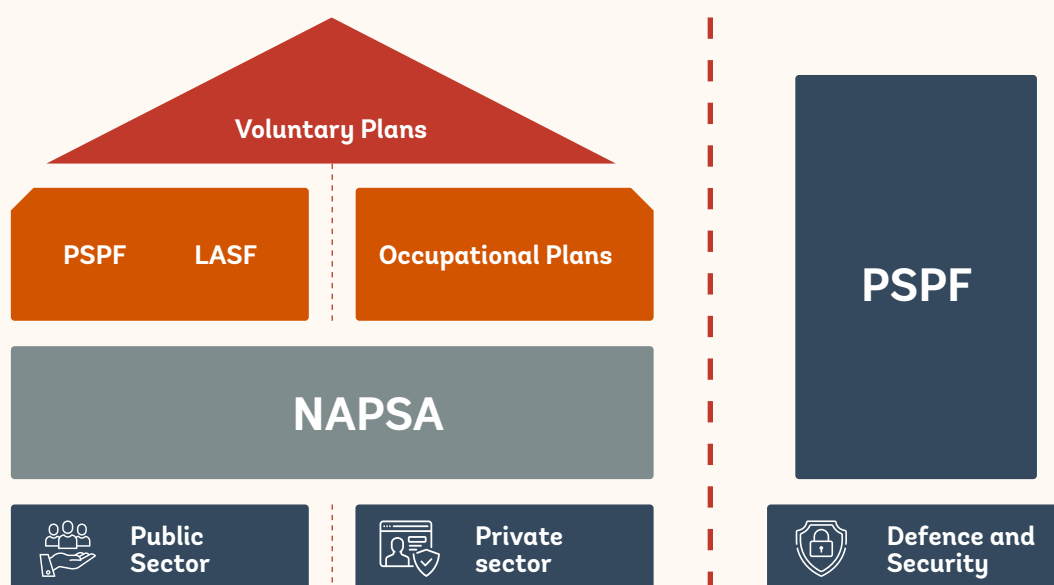
PARAMETER	PSPF	LASF
Contribution Rate	6.5%	5%
Vesting Period	120 months	15 years
Accrual rate	0.5% annual	1/120 annual
Reference Salary	Career Average Earnings, revalued with inflation	Last Five years average
Commutation of Lump Sum	10%	10%
Indexation of pensions	Adjusted annually by an index based on 90% of the CPI.	Rate of change in Average Earnings of scheme membership - subject to actuarial advice



Source: Author's elaboration based on documentation shared by PSPF and LASF



Figure 5.22: Schematic representation of government's Pension System Reform proposal



Source: Author's elaboration based on government's reform plans.

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5.5.2. Comments and recommendations on pension reform options

342. While the design of the government's reform proposal is in line with pension system consolidation and increasing adequacy, fragmentation and intergenerational inequities will remain. The government's proposal of including a second-tier pension plan for public sector and local authorities' employees is welcomed as it increases adequacy and levels the playing field with workers in the private sector that have access to occupational pension plans. However, the design of the second tier maintains fragmentation between public sector local authorities and private sector, as they will be covered by separate supplemental schemes, which may reduce portability of benefits across sectors. There is no clear justification for the separate scheme design for LASF and PSPF, as they both share the objective of a target replacement rate of 20 percent with 5 percent contribution rate. In addition, this reform will imply that three separate cohorts of workers will have three separate entitlements to pension rights: 1) those who joined before 2000 under the existing LASF and PSPF scheme rules; 2) those who joined between 2000 and 2021 under NAPSA only; and 3) those who join after the reform under NAPSA plus the new schemes from LASF or PSPF depending on their employer.

343. The government's proposal does not deal with the financial imbalances of the existing schemes, which should be the top priority in the short run. Our review of LASF and PSPF showed that both are in an actuarial deficit, face liquidity constraints to pay their (heavily frontloaded) benefits and lack a financial planning from the government to cover their financing gaps from the general budget each year. While opening up the schemes to new members will bring financial resources from members' contributions, the new schemes are supposed to be financially sustainable and independent from the existing schemes.

If contributions paid into the new scheme are used to finance benefits in the old scheme, such independence would be broken, and the financial sustainability of the new scheme will be threatened. In any case, it seems that dealing with the financial shortcomings of the existing schemes in LASF and PSPF will need support from general budget financing, irrespective of the introduction of the new schemes.

344. While maintaining the basic design of the reform proposal, the government could consider alternative options to make it more effective. The government could introduce a single second tier pension scheme for all public sector and local authorities' employees. A single scheme would reduce inequities across sectors, facilitate portability and potentially be more efficient. Under this option, it is unclear why two separate institutions would subsist to manage the same scheme, and therefore, it could be managed by a single institution. Given LASF's membership evolution and high administrative costs, a single institution that absorbs LASF expertise on pension management could provide these benefits at a lower cost for the government. In addition, public sector workers or certain employers within the public sector could be given the option to opt for private sector providers of occupational plans, which could offer pension benefits at a lower cost for the State.

345. The government should produce a comprehensive reform program that includes plans to clear the existing ZNPF liabilities, improve NAPSA's management and extending coverage to the informal sector. Although the plans to introduce a three-tiered system are positive, pension challenges in the country go beyond what can be addressed by a change in the design of the overall pension system. There are short-term challenges in dealing with the financial liabilities stemming from the current

LASF and PSPF schemes as well as former ZNPF. In addition, existing pension schemes only cover 30 percent of the employed population, which means that extending coverage to the informal sector should be a reform priority as well.

346. The government's pension reform plans should ensure strict oversight and better investment management practices.

Establishing NAPSA as the sole provider of first tier contributory pensions, with a target replacement rate that is affordable given the scheme parameters, is in line with best practice and a step in the direction to build a consolidated pension system. To fulfill this role more adequately, NAPSA should be subject to strict regulation and adopt better investment management practices that are on par with the best public pension providers in the world. NAPSA should be subject to supervision by the PIA, as an independent entity that regulates and supervises the performance of pension providers in the country.

347. Pension reform should include a plan to deal with ZNPF liabilities.

Although ZNPF was discontinued in 2000 and the ZNPF fund was depleted in 2015, there are still outstanding liabilities to be paid to former ZNPF members, financed by NAPSA's pension fund. Further cross-subsidization from "young" NAPSA members to ZNPF changeovers threatens the sustainability of an otherwise healthy NAPSA fund and should be avoided. To do this, either all NAPSA account balances should be paid out, irrespective of the age of former ZNPF members, or further guaranteed interest on ZNPF balances should be discontinued. In either case, NAPSA should carry out a proper assessment of ZNPF outstanding liabilities and formulate a financing plan to clear those liabilities in the short run.

348. The government should formulate a coherent strategy to expand coverage to the informal sector. NAPSA's efforts to expand coverage to the informal sector are welcome and seem to be well articulated. Private sector initiatives

to complement these efforts would be a welcome development. However, a coherent strategy should be prepared, perhaps at a level of a Steering Committee, that oversees all separate efforts to increase coverage to the informal sector. Pension plans for the informal sector could consider linkages to other existing Livelihood/Employment projects in order to build synergies and exploit economies of scale. Informal sector pension efforts could also incentivize formation of aggregators such as through cooperatives, as it has been the case in other countries in the region or with large informal sectors.²¹⁰ Given the magnitude of the coverage gap and the size of the informal sector in Zambia, a strong M&E framework of all different initiatives will be necessary to identify which initiatives are more promising and which adjustments need to be made to improve the performance of these schemes.

349. The government should produce medium- and long-term projections of pension expenditures to cover the financing gaps that have generated arrears in the system.

All pension schemes in Zambia comply with the good practice of being subject to periodic actuarial reviews. Although the results of these actuarial reviews clearly state the long-term position of each scheme, including an estimation of liabilities, these figures do not seem to be considered when financial planning is done at the government level. So far, the government has made annual allocations in the national budget for a certain amount of transfers to PSPF to cover their payments in arrears. However, the government executes only half or less of the allocated amount. Similarly, ad hoc allocations have been provided to LASF in two separate years. Both institutions do not have the necessary assets to cover their liabilities and need the government to cover the financing gaps. Since these gaps will be realized over a long period of time, MOF cannot address these issues on a year by year basis but needs medium- and long-term plans to cover the financing needs of these institutions.

²¹⁰. See Guven (2019) for examples in Africa.

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350. Limit overly generous benefits to ensure equity in the long run. Despite the strict legal opinion of the Ministry of Justice, it is necessary to pursue reform options that limit liabilities stemming from the overly generous parameters of PSPF and LASF.²¹¹ At the very least, the objective of protecting beneficiaries and pension plan members protected by the Constitution is currently in conflict with fiscal responsibility objectives.²¹² In addition to the financial sustainability, fiscal costs and concentration of public resources with a few

relatively affluent beneficiaries, there is an issue of equity between consecutive cohorts of public sector workers that needs to be addressed. Reducing the long-term costs of unsustainable legacy schemes would liberate resources to focus on more needy portions of the population, such as the poor and vulnerable. Reducing the maximum commutation portion to one-third of the benefit would reduce the cost of pensions by up to 0.2 percent of GDP, while adopting an actuarially fair commutation factor would reduce pension costs by up to 0.3 percent of GDP.



Table 5.9: Summary of pension reform recommendations

NAPSA	PSPF	LASF	GOVERNMENT
Improve asset management practices.	Adopt parametric reforms to reduce liabilities to current Civil Service members.	Establish plan to liquidate assets and to finance benefits.	Produce medium- and long-term pension expenditure projections.
Implement strong Monitoring and Evaluation system.	Establish predictable financing mechanism to clear arrears and pay lump-sums on time.	Consider providing a consolidated second tier scheme that is equivalent to the one offered to public sector employees.	Plan annual transfers to PSPF and LASF according to projections
Produce periodic reports on implementation of Coverage extension initiatives.	Carry out administrative and operational reviews to improve management efficiency.	Focus on claims processing in the short run and transfer benefit payments to a consolidated payment entity in the long run.	Establish a Steering Committee for coverage extension to the informal sector.
Plan for the liquidation and financing of ZNPF liabilities.			Update regulation of occupational pension plans, and allow “competition” with public providers to cover the public sector.
Come under the supervision and regulation of PIA.	10%	10%	

211. Although the legal opinion from the Attorney General is anchored in article 187 (2) of the Constitution of Zambia, which reads “ A pension benefit shall not be withheld or altered to that employee’s disadvantage”, article 188 (1) states “A pension benefit shall be reviewed periodically to take into account actuarial assessments” which is in line with adjusting parameters such as the commutation factors or accrual rates to maintain actuarial balance within the pension scheme.

212. Article 198 of the Constitution of Zambia establishes the guiding principles of public finance, among which letter (d) states “prudent and responsible use of public resources”.

PENSION REFORM OPTIONS SIMULATION TOOLKIT (PROST)

PROST models pension contributions, entitlements, system revenues, and system expenditures. The model is designed to promote informed policymaking, bridging the gap between quantitative and qualitative analysis of pension regimes. It is a flexible, computer-based toolkit, easily adapted to wide range of countries' circumstances. The program is designed to simulate the behavior of pension systems and can assess their financial sustainability under different sets of assumptions over a long-time frame. It allows modeling different pension reform options – from “parametric” reforms of pay-as-you-go defined-benefit schemes to systemic reforms, such as the introduction of fully funded defined-contribution and/or notional defined-contribution schemes. The program can be adapted to a wide range of country circumstances and can handle simulations up to 100 years and more.

As with any simulation model, the outcome from PROST depends largely on the nature and quality of data as well as on the set of assumptions being used for the simulations. Since PROST has been used in more than 90 countries to provide quantitative input for pension policy discussions, its methodology has proven to be sufficiently robust and its flexibility has permitted easy adaptation to specific country circumstances for sensitivity testing and comparisons under a wide range of economic and policy scenarios.

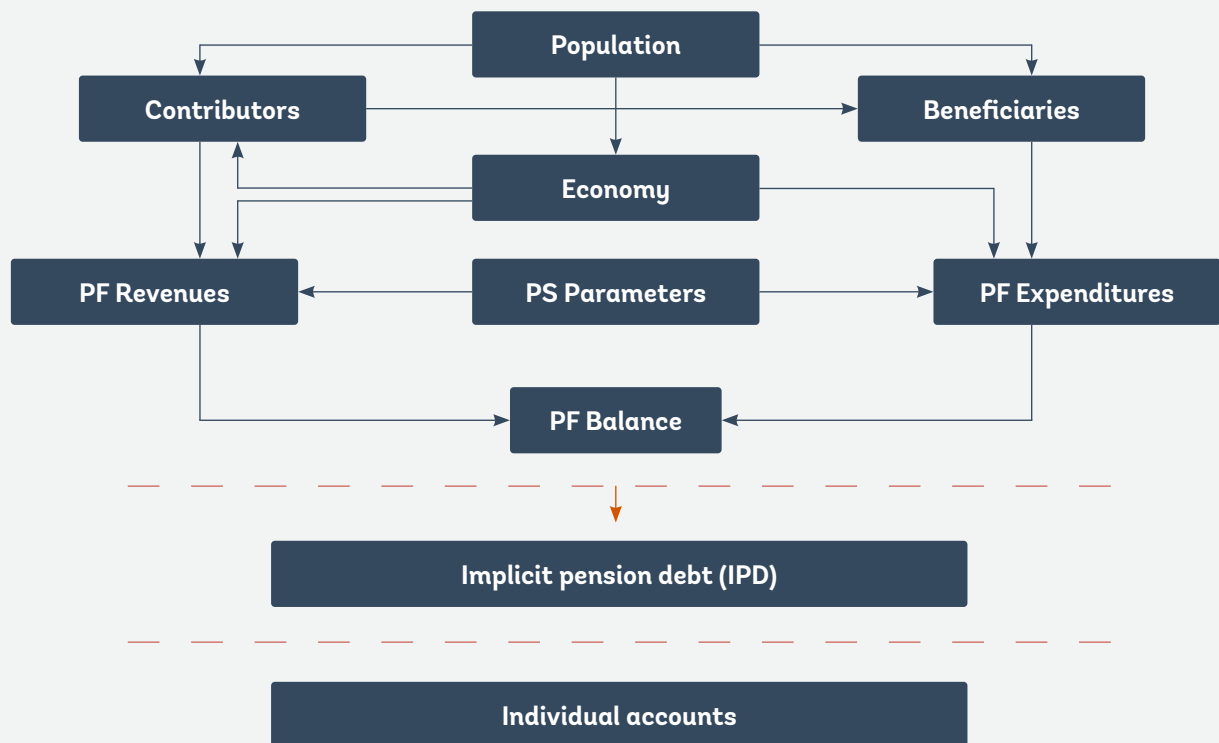
Input Modules

The model consists of an input workbook and five output modules. On the input side, the user provides country specific data on demographic, economic and pension system related parameters and assumptions about their behavior in the future. This information is entered in the input file with eight embedded worksheets:

General	Economic variables (GDP and wage growth, inflation, interest rate), nonage-specific pension system parameters (pension fund balance and benefit expenditures in the base year, retirement age, contribution rate, pension indexation rules, etc.) and some demographic variables
Population	Base year population by age and gender along with age-specific fertility and mortality rates and immigration information.
Labor	Age and gender specific labor force participation and unemployment rates as well as distribution of wages and old age pensions across age and gender cohorts.
Pension	Age and gender specific information about pension system contributors, beneficiaries, coverage and retirement rates, average years of service at retirement and replacement rates for new beneficiaries.
Profiles	Information on representative individuals, such as gender, career path, individual wages, life expectancy, etc. In the most simplified way the general calculation scheme can be summarized as follows:
Reform General	General (not-age-specific) parameters for systemic reform
Reform Pension	Age-specific parameters for systemic reform
Factors	Actuarial Tables



Figure 5A.1: General Calculation Scheme



PROST follows single age/gender cohorts over time and generates population projections, which, combined with labor market assumptions, are used to forecast future numbers of contributors and beneficiaries. These, in turn, generate flows of revenues and expenditures. The model then projects fiscal balances and calculates the implicit pension debt. The required contribution rates and affordable replacement rates for zero pension fund balance in each year of the simulation period are also calculated. Finally, PROST produces outputs related to individuals – what an individual would contribute to the system and what he/she would get out of it under PAYG DB and multipillar schemes. This allows both intra- and intergenerational analysis.

Depending on the characteristics of the pension system and data availability, the user can choose the method for calculation of some of the variables. In particular, the number of contributors and beneficiaries can be computed in either “Stock” or “Flow” method. With the “Stock” method, for each year the stocks of contributors/beneficiaries are calculated first and then inflows (new contributors/beneficiaries) are derived as the changes of the stocks:

$$\text{Inflow}(a,t,g) = \text{stock}(a,t,g) - \text{stock}(a-1,t-1,g) + \text{outflow}(a,t,g)$$

With the “Flow” method, inflows are calculated first and then stocks are derived as previous year’s stocks in each age/ gender cohort adjusted for the net inflow (inflow-outflow):

$$\text{Stock}(a,t,g) = \text{stock}(a-1,t-1,g) - \text{outflow}(a,t,g) + \text{inflow}(a,t,g)$$

where a = age, t = year, g = gender

As PROST keeps track of contribution years of service accrued by each cohort, the calculated number of new retirees – whatever method is used – is then adjusted so that the total length of service accrued by the cohort is equal to the total length of service claimed by the cohort at the time of retirement. After the number of new retirees is adjusted, the stock is recalculated using the “Flow” method.

The user can also choose how the benefit of new beneficiaries is specified, via benefit formula or via age and gender specific replacement rates.

Output Modules

As mentioned above, output produced by PROST is organized in five output modules. Each of the modules contains a number of Excel worksheets and a graphical summary on key output indicators:

Population Projection	Population projections and pyramids, life tables, life expectancy changes, population dependency rates, etc.
Demographic Structure	Labor force and employment projections, projections of contributors and beneficiaries, demographic structure of the pension system, and system dependency rates.
Finances of Monopillar	Macroeconomic trends, wage projections, pension benefit PAYG projections for the existing and new pensioners, revenue and expenditures of the pension system, required adjustments to contribution rates and replacement rates for zero current balance, and the implicit pension debt.
Finances of Multipillar	Pension benefit projections for new and existing pensioners System under each of the three pillars (conventional PAYG, notional PAYG, and funded DC), revenues and expenditures of both PAYG and funded pillars, implicit pension debt of the PAYG system after the reform, and results of the reform (compares benefit projections and financial standing under the monopillar PAYG and multipillar scenarios).
Individual accounts	Lifetime contributions and benefits and individual related summary statistics for up to six different individuals specified in the “Profiles” input sheet under PAYG system (statutory, with adjusted contribution rates and with adjusted benefits) and multipillar system (for those who switched to the multipillar system and those who remained in the PAYG system).

Key Indicators Estimation

The following charts show a schematic view on the calculation and sources of revenues and expenditures. Contribution revenues were calculated based on the prescribed contribution rate, the average earnings of each age cohort, and the number of contributors in each cohort. Expenditures are calculated based on the pension of the previous year, indexation rules, and entry benefits for new retirees.



Figure 5A.2: Revenues estimation

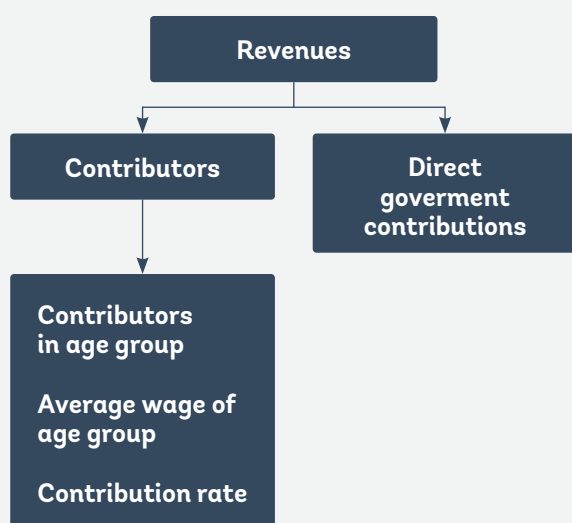
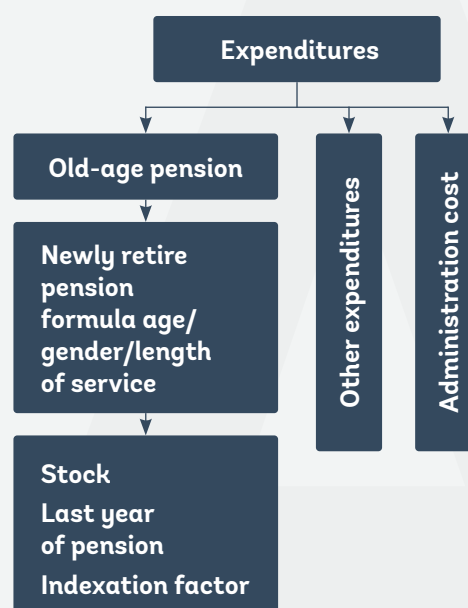


Figure 5A.3: Expenditure estimation



GLOSSARY OF PENSION TERMS

Accrual rate.	The rate at which pension entitlement is built up relative to earnings per year of service in earnings-related schemes—for example, one-sixtieth of final salary.
Benefit rate.	The ratio of the average pension to the average wage, which could be expressed as relative to the economy wide average wage or to the individual's specific average or final wage.
Commutation.	Option exercised at retirement of giving up part or all of the pension payable from retirement in exchange for an immediate lump sum.
Commutation factor.	Numerical variable applied to the calculated pension benefit used to determine the amount of pension which needs to be given up in order to provide the lump sum
Defined benefit (DB).	A pension plan with a guarantee by the insurer or pension agency that a benefit based on a prescribed formula will be paid. Can be fully funded or unfunded and notional.
Defined Contribution (DC).	A pension plan with no prescribed benefit formula, where benefits are calculated based on the balance accumulated in an individual account at retirement. The account can be fully funded or notional.
Full funding.	The accumulation of pension reserves that total 100 percent of the present value of all pension liabilities owed to current members.
Funding.	Accumulation of assets in advance to meet future pension liabilities.
Indexation.	Increases in benefits by reference to an index, usually of prices, although in some cases of average earnings.
Means-tested benefit.	A benefit that is paid only if the recipient's income falls below a certain level.
Old-age dependency ratio.	The ratio of older persons to working-age individuals. The old-age dependency ratio may refer to the number of persons over 60 divided by, for example, the number of persons ages 15–59, the number of persons over 60 divided by the number of persons ages 20–59, and so forth.
Pay-as-you-go (PAYG).	In its strictest sense, a method of financing whereby current outlays on pension benefits are paid out of current revenues from an earmarked tax, often a payroll tax.
Pension coverage rate.	The number of workers actively contributing to a publicly mandated contributory or retirement scheme, divided by the estimated labor force or by the working age population.
Pensionable earnings.	The portion of remuneration on which pension benefits and contributions are calculated.
Portability.	The ability to transfer accrued pension rights between plans.
Replacement rate.	The value of a pension as a proportion of a worker's wage during a base period, such as the last year or two before retirement or more, or the entire lifetime average wage. Also denotes the average pension of a group of pensioners as a proportion of the average wage of the group.

System dependency ratio.	The ratio of persons receiving pensions from a certain pension scheme divided by the number of workers contributing to the same scheme in the same period.
System maturation.	The process by which a pension system moves from being immature, with young workers contributing to the system, but with few benefits being paid out since the initial older persons have not contributed and thus are not eligible for benefits, to being mature, with the proportion of older persons receiving pensions relatively equivalent to their proportion of the population.
Universal flat pension.	Pensions paid solely based on age and citizenship, without regard to work or contribution records.
Valorization of earnings.	A method of revaluing earnings by predetermined factors such as total or average wage growth to adjust for changes in prices, wage levels, or economic growth. In pay-as-you-go systems, pensions are usually based on some percentage of average wage. This 31 average wage is calculated over some period of time, ranging from full-career average to last salary. If the period for which earnings history enters into the benefit formula is longer than the last salary, the actual wages earned are usually revalued to adjust for these types of changes.
Vesting period.	The minimum amount of time required to qualify for full and irrevocable ownership of pension benefits.

DATA AND ASSUMPTIONS USED IN PROST SIMULATIONS

Demographic data and projections

Population projections are based on UN Population Division data for Zambia. In line with the observed international trends, fertility and mortality rates are assumed to decrease over time. Based on these assumptions, the population is projected to grow from the current estimated 18.4 million to 63.2 million by the end of the simulation period with life expectancy at birth increasing from today's 62.4 to 71.9 years for men, and from today's 68.5 to 78.4 years for women.



Table 5C.1: Zambia's population projections by demographic categories

	2020	2021	2022	2025	2030	2035	2040	2050	2060	2070	2080
MALE LIFE EXPECTANCY: AT BIRTH	62.4	62.4	62.4	62.4	63.6	64.7	65.6	67.3	68.8	70.3	71.9
MALE LIFE EXPECTANCY: AT RETIREMENT	18.7	18.7	18.7	18.7	19.0	19.3	19.6	20.2	20.9	21.6	22.5
FEMALE LIFE EXPECTANCY: AT BIRTH	68.5	68.5	68.5	68.5	69.8	71.0	72.0	73.9	75.5	77.0	78.4
FEMALE LIFE EXPECTANCY: AT RETIREMENT	22.4	22.4	22.4	22.4	22.7	23.0	23.3	24.0	24.9	25.8	26.8
TOTAL POPULATION ('000)	18384	18881	19397	21049	24098	27420	30947	38430	46451	54849	63271
GROWTH RATE		2.7%	2.7%	2.8%	2.7%	2.6%	2.4%	2.1%	1.8%	1.6%	1.3%
0-14		1.3%	1.4%	1.6%	1.8%	2.2%	1.7%	1.2%	1.1%	0.9%	0.6%
15-RET. AGE		3.8%	3.7%	3.5%	3.1%	2.5%	2.5%	2.2%	1.7%	1.5%	1.3%
RET. AGE +		4.5%	4.5%	4.8%	5.2%	5.1%	4.7%	4.2%	4.1%	3.3%	2.6%
POP. DEPENDENCY RATE	96.9	94.9	93.1	88.8	84.3	82.9	83.0	79.4	79.0	80.9	81.2
AGE 0-14 / AGE 15-RET. AGE	86.7	84.6	82.7	78.0	72.6	69.7	68.2	61.5	56.7	53.7	50.2
RET. AGE + / AGE 15-RET. AGE	10.3	10.3	10.4	10.7	11.7	13.2	14.8	17.9	22.2	27.2	31.0
SUPPORT RATIO: AGE 15-RET. AGE / RET. AGE +	9.8	9.7	9.6	9.3	8.5	7.6	6.7	5.6	4.5	3.7	3.2
TOTAL FERTILITY RATE	4.1	4.1	4.1	4.1	3.9	3.7	3.5	3.2	3.0	2.8	2.6



Source: PROST projections using United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition, Rev. 1.

Economic data and assumptions:

Assumptions regarding real GDP growth rates and inflation are based on:



Table 5C.2: Zambia's macroeconomic indicators projections

	2020	2021	2022	2023	2024	2025	2030	2040	2060	2090
REAL GDP GROWTH RATE	-3.5%	0.6%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
INFLATION RATE	13.0%	11.2%	9.0%	7.0%	7.0%	7.0%	5.0%	4.0%	2.0%	2.0%
REAL WAGE GROWTH RATE	-3.5%	0.6%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%



Source: International Monetary Fund, World Economic Outlook Database, October 2020 until 2025; author's estimates thereafter.

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