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## **Zambia**

Social Protection Expenditure and Performance Review and Social Budget

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# Zambia



## Social Protection Expenditure and Performance Review and Social Budget

### Executive Summary

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## Introduction

This document is the Executive Summary of the Social Protection Expenditure and Performance Review (SPER) and Social Budget (SB) report for Zambia. It is an output of the first year of work of the ILO/DFID-funded project in Zambia: “ILO Global Campaign for Social Protection and Coverage for All as a Means to Reducing Poverty in Africa and Asia”. Its purpose is to highlight key issues and findings rather than to summarize the main report chapter by chapter.

The ILO supports implementation of the *Zambian Fifth National Development Plan*, including the *Social Protection Strategy (SPS)* and the *Social Security Policy (SSP)*, by its *Decent Work Country Programme (DWCP)*; all actors seek to promote opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity.

The main objective of undertaking the analytical work was to build a comprehensive base-line of contributory and non-contributory public social security/social protection provisions; and to project on a status quo basis overall social security expenditure incorporating social insurance, social assistance and health care – i.e., a country’s social budget – for a twenty-year period. These base-line projections are expected to be the foundation of any future policy options analysis supporting the process of a national policy debate on the future of social protection in Zambia.

The overall aim of the project is to be able to identify the amount of fiscal space<sup>1</sup> needed to begin to implement a minimum social protection package. This would include affordable universal access to essential health care services; targeted social assistance; basic cash and in-kind benefits for children (mothers and carers); and a basic universal pension for the elderly and for persons with disabilities. This minimum package would be gradually implemented according to national priorities. The package would help to reduce substantially the incidence and depth of poverty and vulnerability and, as a consequence, improve productivity and thus growth.

The main finding is that neither existing contributory (social insurance) nor non-contributory (social assistance) social security provisions are adequate in terms of the numbers of the population covered, the scope of coverage and the adequacy of benefits/payments received. There is a need to strengthen and better coordinate policy development, resource allocation and implementation of change in relation to both contributory and non-contributory provisions. Non-contributory social assistance programmes are without doubt severely under-funded: less than 0.2 per cent of GDP is allocated both from domestic and donor funds together.

As a first step, the Government needs to undertake a detailed public expenditure review with the aim of assessing the basis for, and redistributive impact of all kinds of existing transfers, subsidies and tax privileges in order to identify the fiscal space needed to finance priority social policies.

The challenges are enormous as almost half of the population are extremely poor, living below the food poverty line, and almost two-thirds are living below the basic needs poverty line and thus are moderately poor or worse.

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<sup>1</sup> The availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position. Peter Heller, IMF, 2005.

## Extension of coverage: the problems

### *The Labour Market*

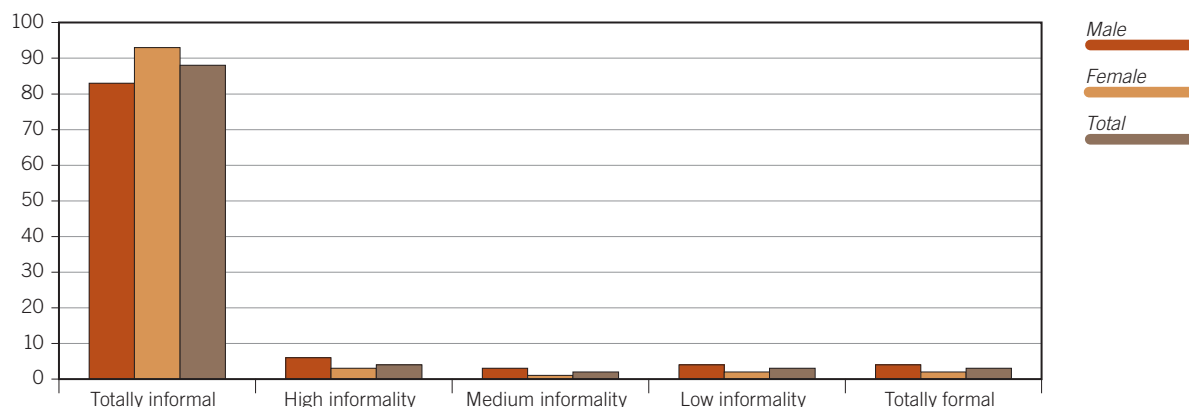
A key issue is how to extend coverage in a highly informal labour market environment. The predominantly informal nature of the labour market presents a major challenge to the extension of social protection coverage. This is because contributory/formal/mandatory social protection schemes are based on the contractual relationship between worker and employer. New solutions have to be found where there is high informalization of the labour market and no employment contractual relationship. The Report concentrates on the issue of “informality of employment”, a multidimensional concept that enlarges the previous concept of the informal sector and seeks to take into account precarious or unprotected forms of employment, including those of employees in formal-sector enterprises in both formal and informal components of the economy.

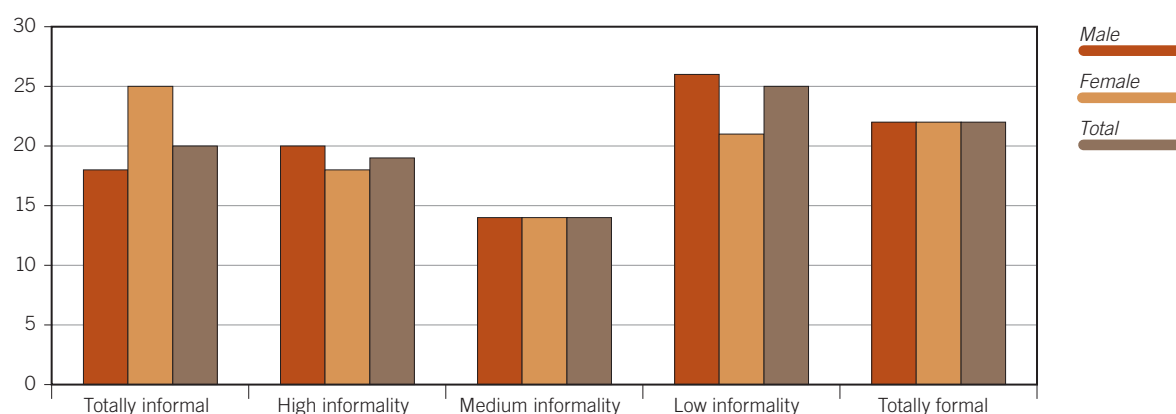
In order to find such solutions, it is necessary to have a good understanding of the informality of employment in Zambia. In particular, the Report looks at the employment status of a person and where he/she is employed. Analysis of the LFS 2005 was undertaken using a set of criteria to characterize employment in formal or informal enterprises on the one side (formal recognition, size and location of enterprises); and on the other side another set that relates to workers’ employment conditions – (i) the existence (or awareness) of a formal contract (permanent or fixed term) with an employer; (ii) the existence (or awareness) of entitlement to paid leave; and (iii) that the employer contributes to social security.

The figures A and B show the distribution of all persons in employment and of paid employees along the five degree-scale for informality, resulting from the combination of the above criteria. See Table 3-1 and 3-2 in the Report for details. (The numbering of Tables and Figures is that to be found in the Report except for Figures A and B.)

Eighty-eight per cent of all of the employed worked totally in the informal economy and only 3 per cent of those employed worked in a fully formal environment. The degree of employment formality among paid employees is obviously much higher but still only a little more than one-fifth of them works in the totally formal economy. The LFS shows that 49 per cent of paid employees interviewed did not have or did not know if they had a contract of employment with their employer; and the same proportion of all paid employees said that either their employers did not pay a social security contribution for them or, if they did, they were not aware of it.

**Figure A. Degrees of informality for all employed persons (in percentage)**



**Figure B. Degrees of informality for paid employees (in percentage)**

The analysis shows that there is considerable scope to easily extend social protection to individuals who have a formal employment relationship. There is also scope to extend coverage to those who come into the category of low informality. Efforts need to be made to tackle the gender differences.

### *Contributory schemes*

Zambia has a long history of contributory social security schemes (it is usual practice to use the term social security rather than social protection for such types of schemes), which are based on the social insurance model and limited to the provision of protection against the loss of income resulting from retirement, disability and death. Thus, scope of coverage is limited, and working women are often excluded as they are predominantly in informal jobs. The national social security institutions are the National Pensions Scheme Authority (NAPSA), the Public Service Pension Fund (PSPF) and the Local Authorities Superannuation Fund (LASF). In addition, there are a number of occupational pension schemes and an occupational disease and work injury scheme: the Workers' Compensation Fund under the Workers' Compensation Fund Control Board (WCFCB).

There are problems with coverage. Data on members suggest that the schemes cover 79 per cent of their possible membership; whereas the LFS indicates the figure may be lower. See Table 4-5.

**Table 4-5. Social Security Coverage in 2005**

	Active members	Per cent labour force	Per cent paid workers	Pensioners
NAPSA (Estimate)	355200	8.0	16.1	0
PSPF	106062	2.4	4.8	46122
LASF	13000	0.3	0.6	8250
Occupational schemes	40904	0.9	1.8	7173
WCFCB				17721

Labour force (15-54): 4416822; Paid workers (15-54): 2212336; Formal-sector paid workers (15-54): 435588.

Steps need to be taken to extend coverage for those in the formal sector, working with an employment contract, and to those in paid employment. The finding in Table 4-5 confirms that the majority of working people lack adequate social security coverage.

**Table 4-8. Comparative analysis of some hypothetical retirement benefits**

	PSPF	LASF	NAPSA
Monthly pension	201 432 <sup>1</sup>	217 659 <sup>2</sup>	406 528 <sup>3</sup>
Lowest pension	50 000	41 667	30 4896
Highest pension	1 300 000	1 166 667	1 472 191
Lump sum	62 460 305	60 413 568	36 587 760

<sup>1</sup> Calculation based on an average salary of ZMK 923 234 as stated in the 2006 Formal Sector Employment and Earning Inquiry Report by the Central Statistical Office. <sup>2</sup> Calculation based on an average salary of ZMK 997 606 as stated in the 2006 Formal Sector Employment and Earning Inquiry Report by the Central Statistical Office. <sup>3</sup> Calculation based on the National Average Monthly Earning of ZMK 1 524 480.

A comparative analysis of retirement benefits – see Table 4-8 – shows differences in replacement rates between schemes for individuals with the same level of earnings and length of contribution. The monthly pensions are very low for those in the PSPF and LASF because of the size of lump sum that they can take upon retirement. This indicates there is a need to examine adequacy and design of benefits.

Consideration needs to be given to the scope of benefits provided, numbers covered and adequacy of benefit levels. Principles of good governance need to be consolidated into the management of the schemes and Tripartite Board members should have the necessary training so that they can effectively carry out their responsibilities.

### *Non-contributory schemes*

The important difference between non-contributory and contributory provision is that non-contributory programmes make transfers in cash or in kind but without linking provision to any contribution requirement. The Report applies standard criteria of coverage, scope and adequacy when examining public and private measures providing some form of social protection.

The Report focuses on five programmes which it identifies as the most important in terms of coverage and impact. They are: the Public Welfare Assistance Scheme (PWAS), which is the oldest and largest scheme; a group of Social Cash Transfer Schemes financed by international donors and implemented under the PWAS; the Food Security Pack (FSP), which is a government-funded scheme providing basic agricultural inputs, technology transfers and training to vulnerable small-scale family households; the School-Feeding Programme, funded by the World Food Programme; and Project Urban Self-Help, which is a government-funded public works programme. See Table 4-10.



**Table 4-10. Detail of beneficiaries and expenditures, 2005-2006**

Scheme	2005		2006	
	Beneficiaries	Expenditure K millions	Beneficiaries	Expenditure K millions
Public Welfare Assistance Scheme	107 415	10 351	166 559	10 181
Social Cash Transfer Scheme	39 500	3 225	64 700	5 971
Food Security Pack	40 000	9 000	34 942	21 000
School Feeding Programme	19 520	3 116	173 980	22 408

Sources: MCDSS (2006), MCDSS/GTZ (2005), RHVP (2007), MoFNP (2007), Lee & Siamwiza (2006).

Although the existing programmes are intended to provide assistance to a wide range of poor and vulnerable groups, the actual effective scope of coverage is low, e.g., PWAS targets 2 per cent of the population but reaches much smaller numbers of people and their households. In all cases these programmes, due to very limited available resources and low capacity, reach only a small portion of the vulnerable groups they are supposed to cover. Delivery is poor and inconsistent and there is a lack of coordination between ministries, other government agencies, donors, international organizations and NGOs.

Targeting is based on available funding and not on need. And the long-term sustainability of donor-funded programmes is uncertain. There is a social protection strategy included in the Fifth National Development Plan 2006-10 and efforts are being made to consolidate some of the social assistance programmes, but this is being done separately from work being done by the Ministry of Labour and Social Security to develop a social security strategy.

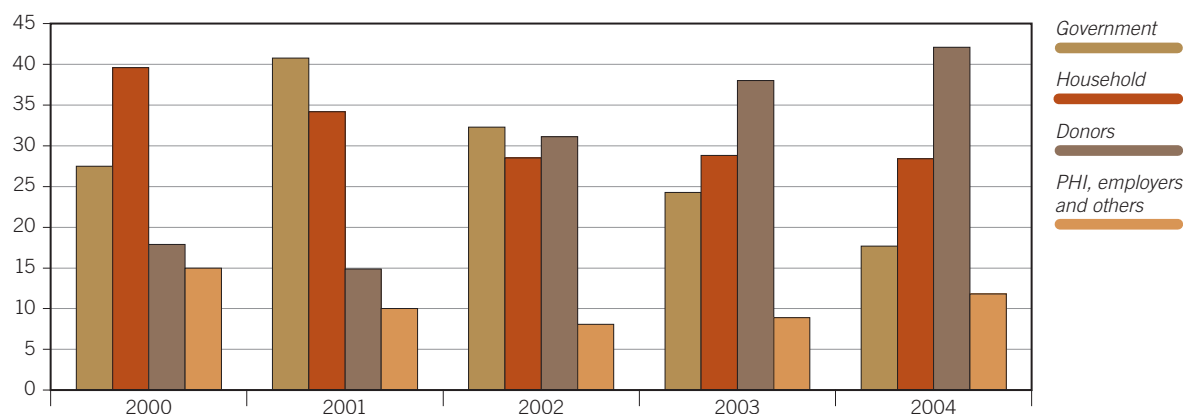
### *Health care*

The key findings are: the existing health care system is inequitable in terms of expenditure and service delivery; Zambia is heavily reliant on donor funding (see Figure 4-11); and expenditure per capita has increased, whereas real growth of government expenditure was negative in 2002-2004.

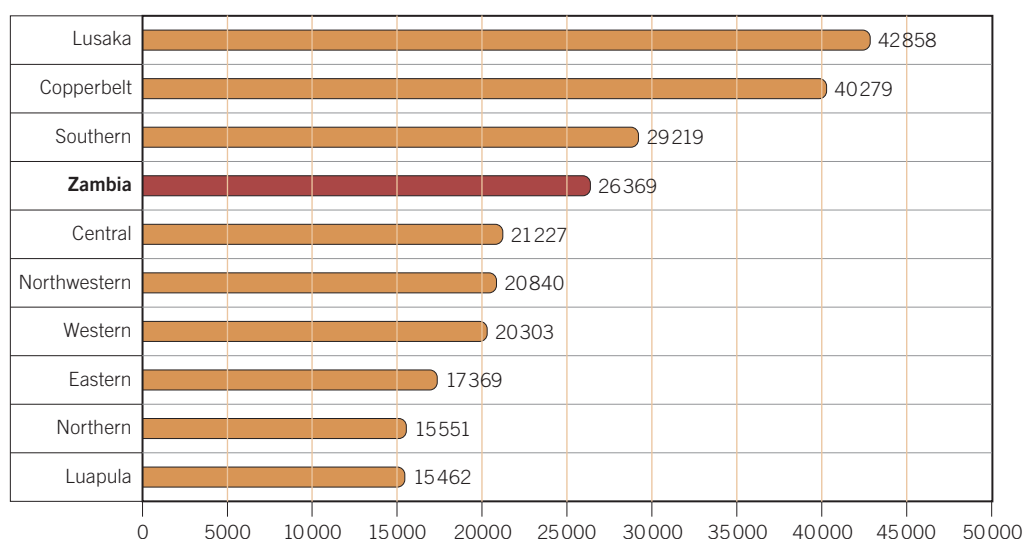
Inequalities in inter-provincial distribution of government expenditure are clearly set out in Figure 4-17. The highly uneven distribution of medical staff is a major constraint. The Government is working to achieve a better balance of revenue allocation.

Unfortunately, vulnerable groups and citizens living in hard-to-reach and insecure areas experience difficulties in gaining access to services. This has led to continued high mortality in children as noted in Chapter 1 of the Report. Table 4-20 shows some key indicators.

**Figure 4-11. Health care expenditure by financing source as percentage of total health expenditure, 2000-2004**



**Figure 4-17. Inter-provincial distribution of Government expenditure, per capita (Zambian Kwacha), 2005**



**Table 4-20. Coverage of selected preventive and curative care**

Indicator	Coverage (year)
Percentage of children who slept under an ITN the night before survey	22.8 (2006)
Percentage of children with fever who received an antimalarial	57.9 (2006)
Percentage of women who received an antimalarial during pregnancy	76.9 (2006)
Percentage of children with diarrhoea who receive treatment	66.9 (2002)
Ante-natal care (at least 4 visits)	71.4 (2002)
Percentage of deliveries attended by skilled birth attendant	43.4 (2002)
TB case detection rate (per cent)	68.0 (2005)

Source: Malaria Indicator Survey 2006, DHS 2002, WHO database

**Table 4-22. Percentage of women who report that they have “big problems” in accessing health care when they are sick, by type of problem and province**

	Knowing where to go for treatment	Getting permission to go	Getting money for treatment or transport	Distance to facility	Availability of transportation	Any of the above reasons
Central	12.2	4.8	66.0	58.0	50.2	82.4
Copperbelt	5.5	3.3	57.1	27.6	28.0	66.0
Eastern	3.4	2.6	78.4	52.1	57.7	83.2
Luapula	0.6	3.8	60.9	57.8	56.2	77.2
Lusaka	6.5	4.1	66.9	32.1	36.9	75.6
Northern	4.8	1.2	68.0	55.7	59.4	82.5
Northwestern	7.0	5.8	73.1	56.6	57.9	82.1
Southern	8.9	4.7	69.6	50.8	56.2	80.6
Western	18.8	9.2	65.5	50.1	49.5	79.6
<b>Zambia</b>	<b>7.0</b>	<b>4.0</b>	<b>66.4</b>	<b>45.5</b>	<b>47.3</b>	<b>77.3</b>

Source: Zambia DHS 2001/2 table 9.11

Importantly, the Government has more or less removed the payment of user-fees in rural areas for primary care. This has led to a 50 per cent increase in the use of medical facilities in these areas. Particular reference should be made to the barriers that women perceive to exist in gaining access to medical care. See Table 4-22.

HIV/AIDS represents the greatest share of Zambia’s current health burden; and its strong link to poverty makes it a major threat to the country’s development. The Government, in partnership with the Global Fund and other partners, has scaled up its provision of ART in public institutions at a highly subsidized cost. But coverage is not uniform across the country and large numbers of people are still not covered.

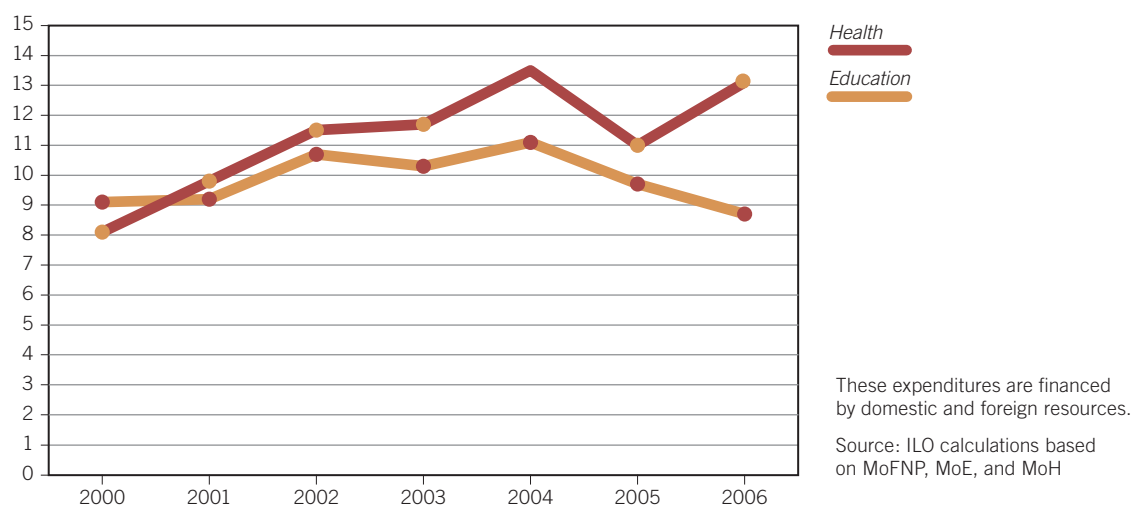
## Social Budget

Looking at existing fiscal space and the place of the Social Budget within it, the Report looks at the resources allocated to different types of social security/social protection with reference to different contingencies and different populations. It looks at the main components of the Government’s budget and its social expenditure allocations; the role of international cooperation, focusing on aid flows and debt relief; the aggregate Social Budget and explains some details by sector; and finally the challenges to provision of social protection in Zambia.

The picture is one in which capital expenditure decreased by 4.3 per cent of GDP in 2007, tax revenue declined over the period 2000-2006 (although not in 2007), 76 per cent of government investments are financed by foreign grants, and a low level of capacity of some ministries and government units at district level in executing programmes. This has resulted in expenditure on social sectors falling below its target of 37.4 per cent to 30 per cent of realized total expenditures in 2007.

Over many years, health and education have represented the largest individual elements of government expenditure. See Figure 5-2.

Figure 5-2. Evolution of expenditures of major social sectors (per cent of total expenditure)



However, only half of health expenditure is financed by central government with the remainder being donor-financed. In contrast, education is mainly financed by central Government. This is an important finding in relation to the sustainability of health care provision and its role in a minimum package of social protection benefits.

The government has introduced a number of changes in order to tackle these difficulties. A Public Expenditure Management and Financial Accountability (PEMFA) programme has been introduced to enhance the efficient use of resources. The Fifth National Development Plan has set priorities for social sectors and infrastructure. It is important that these two priorities develop at the same speed if the problems of the rural poor are to be addressed. A new fiscal and regulatory framework for the mining sector has been introduced, and new thresholds for revenue, taxation and VAT are envisaged. Table 5-3 shows revenues and expenditure of the general government (including social security funds) estimated by the ILO for 2005 and 2006.

Extending social protection coverage by social security institutions and protecting more people against various contingencies would allow the government to re-allocate resources among priority groups.

Donors play a significant role in financing social protection provision, either by grants or non-reimbursable aid and loans. Grants represented 85.6 per cent of total external funding in 2006 with project support being the largest part of such funding. Figure 5-5 shows the distribution over time.

A deeper examination of the budgets for education and health is in Figure 5-6 and demonstrates the high dependency on foreign aid for sustaining the health care budget.

Importantly, Zambia's external debt was decreased from 7,080 million US dollars in 2004 to 1,516 million US dollars in 2006. This has resulted in a more stable position for the country. The possibilities of creating "fiscal space" based on this lower debt have proved to be limited as donor aid has, at the same time, significantly reduced as a percentage of GDP.

Table 5-3. Operations of general government (as percentage of GDP), 2005-2006

	2005	2006		2005	2006
<b>Revenues</b>	26.9	26.7	<b>Expenditures</b>	28.2	27.7
<b>I. Government revenue</b>	23.6	23.4	<b>I. Government expenditure</b>	26.3	26.0
A Revenue	17.7	17.4	A Non-financial expenditure	23.6	23.6
Tax revenue	17.2	17.0	Current expenditure *	16.3	15.6
Non-tax revenue	0.5	0.5	Capital expenditure	7.3	8.0
B Grants	6.0	6.0	B Interest	2.7	2.3
<b>II. Social security schemes</b>	3.3	3.3	Domestic debt	2.3	2.0
A Contributions	2.0	2.0	External debt	0.4	0.3
From employees	0.9	0.9	<b>II. Social security schemes</b>	1.9	1.8
From private employers	0.6	0.6	Benefits paid	1.2	1.3
From public employers	0.5	0.5	Administration	0.7	0.4
B Investment income	0.7	0.6			
C Government transfer	0.6	0.7	<b>Overall Result</b>	-1.3	-1.0

\* Current expenditure includes the social security contributions of Government and the transfers made to social security institutions.

Figure 5-5. External funds to central Government operations (in USD million)

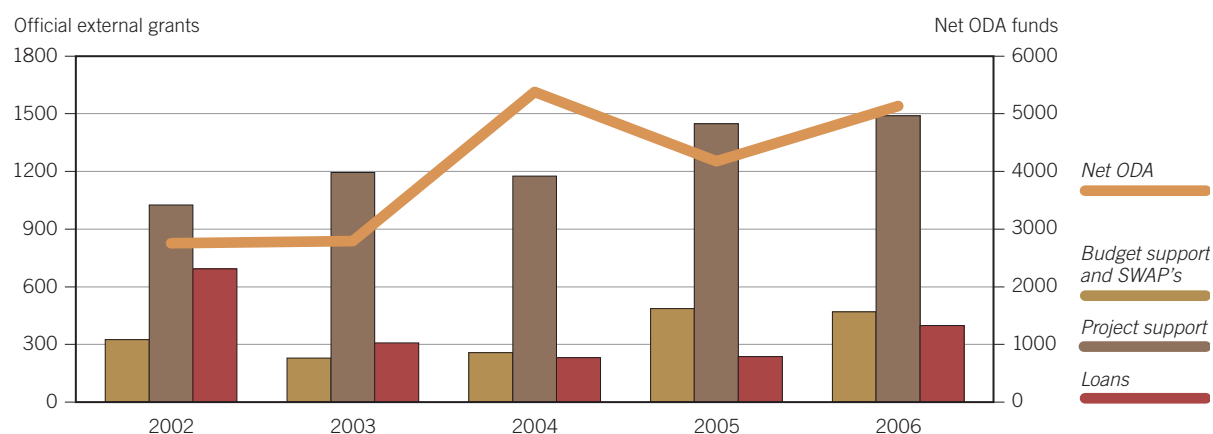
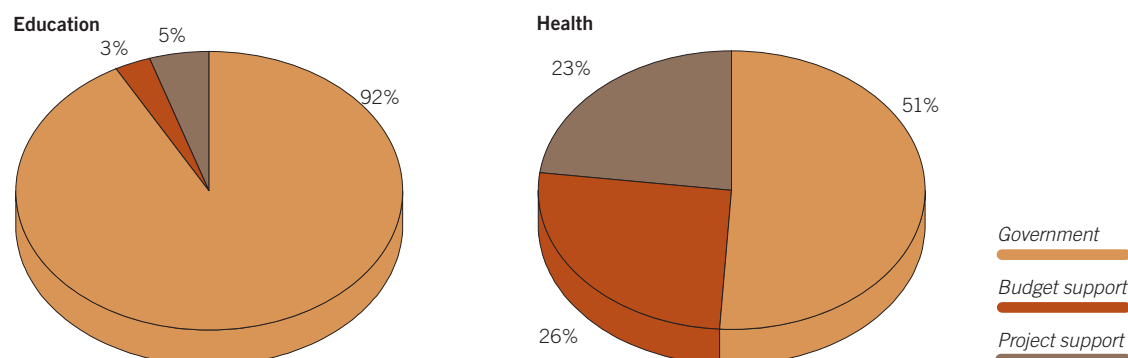


Figure 5-6. Distribution of main sources of financing, 2006



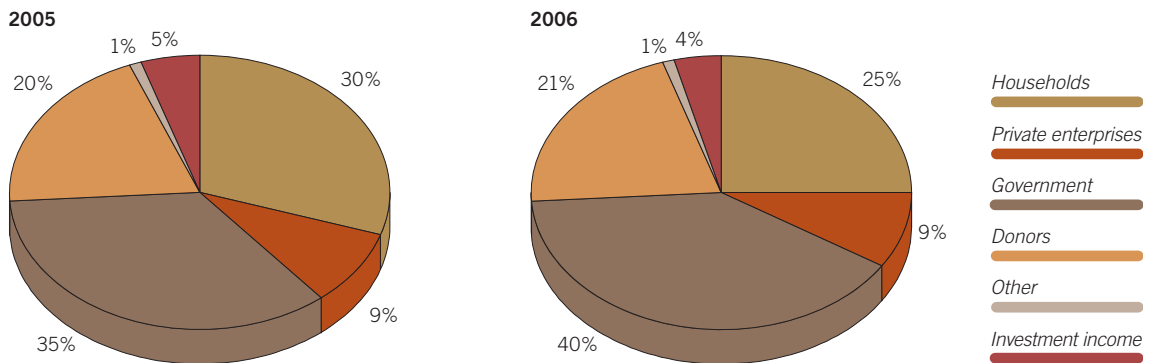
Source: ILO calculations based on MoFNP, MoE, and MoH.

Examination of the 2005-2006 social budget shows 44 per cent went to health, education was 33.2 per cent, social security 9 per cent and short term 3 per cent. Health and education taken together were 10.7 per cent of GDP in 2006. In 2005-2006, the distribution of revenues is set out in Figure 5-7. Figure 5-10 shows the Government finances 40 per cent, households finance 25 per cent, through out-of-pocket expenditures and employees contributions, donors provide 21 per cent and 9 per cent comes from private enterprise contributions to social security, health insurance, etc., and the remainder from pension fund investment income.

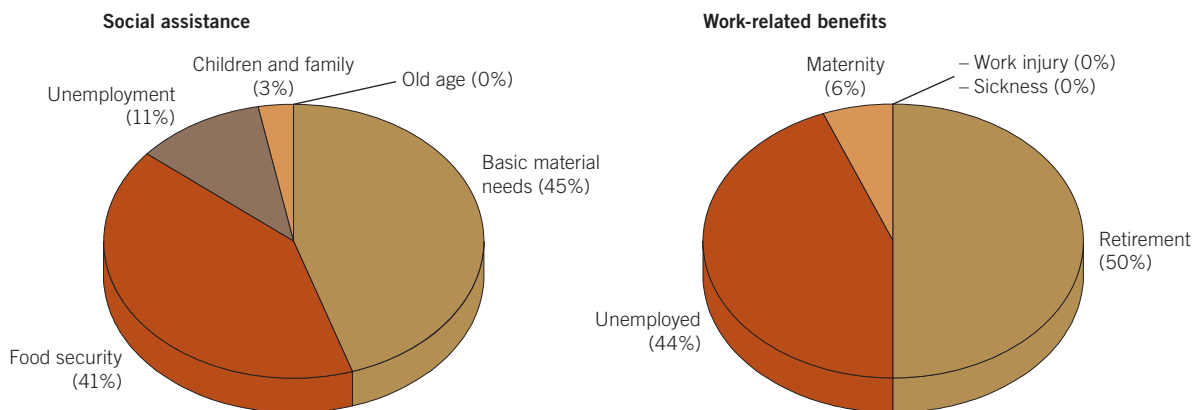
The Report breaks down expenditure and revenue in detail. Figure 5-10 shows the breakdown for public financed social assistance programmes which demonstrates the existing structure of targeting.

The analysis of the existing social budget clearly points to low expenditure on social assistance, which should be addressing the needs of the poorest and most vulnerable; a heavy reliance on donor funding for health care; low coverage by social security institutions, which explains its low contribution to revenues; and cuts by the government in investment expenditure.

**Figure 5-7. Resources of the social protection system, 2005-2006**



**Figure 5-10. Structure of social assistance benefits and other work-related benefits, 2006**



## Future trends in social expenditure and financing

The report also presents twenty-year social budget projections based on minimum policy changes and differing scenarios for employment status (set out in Table 6-2 in the Report), real GDP growth and employment status (set out in Table 6-3 in the Report) and three simulations to test assumptions about GDP growth and employment growth (see Table 6-7 in the Report). The assumptions are conservative in nature.

We observe the country is entering a major demographic transition; this has important consequences highlighted by the status quo projections. The population almost doubles between 2000 and 2025, the age structure slightly changes with total dependency ratio decreasing from 1.06 to 0.92 (see Table 6-1 in the Report). As a consequence the labour force will grow on average at 2.8 per cent per year. We assumed employment will follow the growth in labour force so that there will be no increase in unemployment. However such a fast increase in a working-age population poses a real challenge to the economy. Future economic growth has to create a large number of new jobs. The number of women in the labour market is expected to grow faster than the number of men. No change has been assumed in the gender structure of labour force participation in our conservative assumption.

There is a question concerning the quality of employment the growing economy will create – how productive, how formal and thus how decent? This will have considerable implications for the future development of both contributory and non-contributory social security provisions, and will also have major implications for the future tax base and fiscal space. The status quo projection does not assume any major structural change but further work will focus on developing possible scenarios including structural changes that would create higher productivity and higher quality jobs.

Our base case assumptions include long-run real growth rates which slightly decrease compared to recent years. Tax revenues would continue to increase as a result of economic expansion although we did not assume any increase in the tax rates or any broadening of the tax base. However, in the longer run, in order to meet its development and social spending needs and thus to meet the challenge of embarking on the road towards the status of a middle income country, the Zambian economy will need to significantly broaden its tax base and also probably increase the overall effective tax rates.

**Figure 6-1. Labour force projections by sex and area of residence, 2005-2025 (millions)**

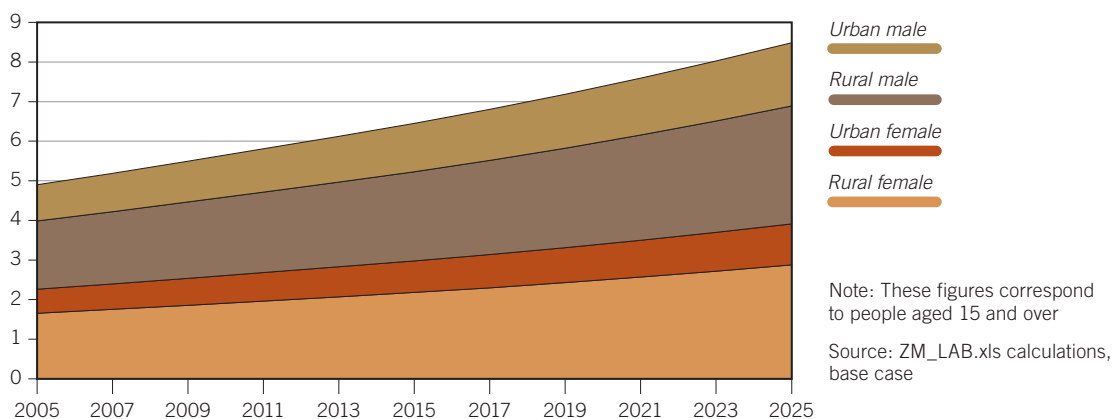


Figure 6-7. Level and composition of total social protection expenditure, 2005-2025 (percentage of GDP)

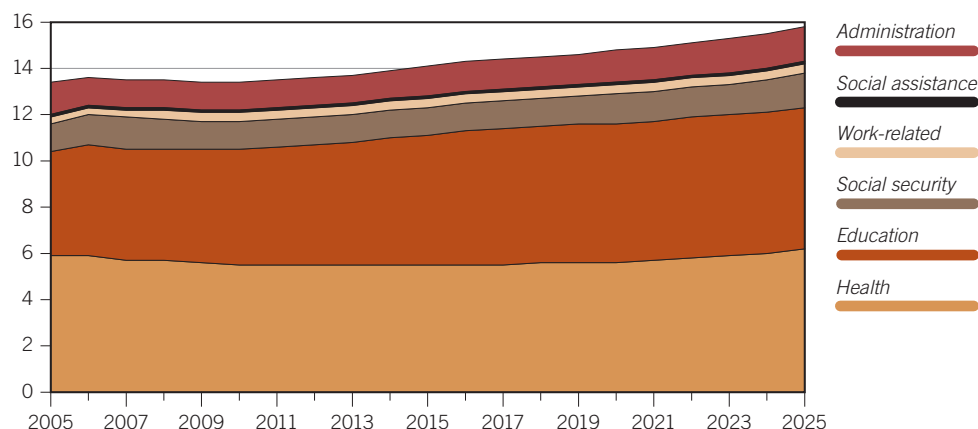
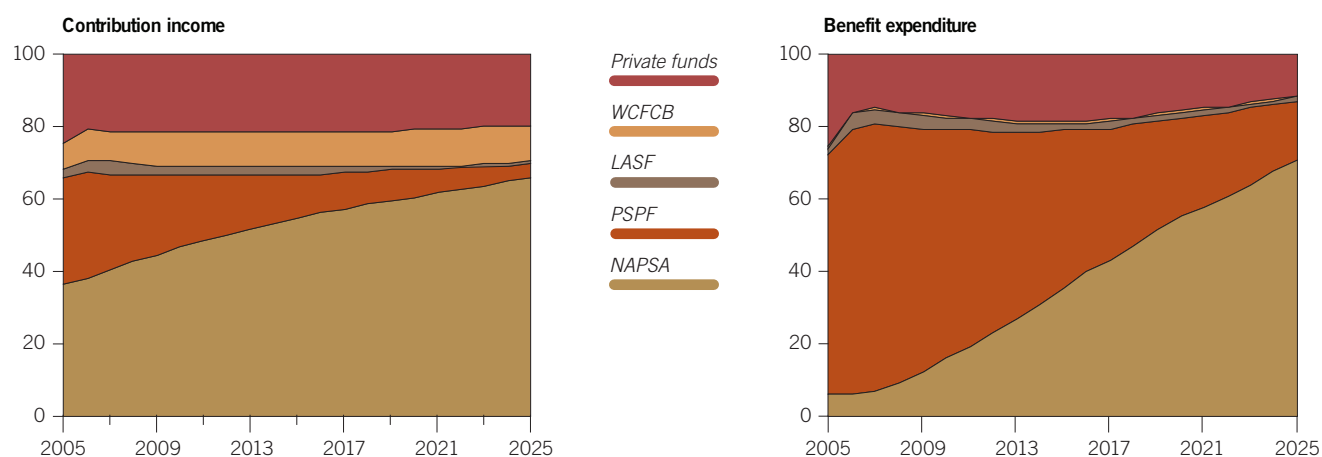


Figure 6-11. Composition of contribution income and benefit expenditure, 2005-2025 (percentage) \*



\* In contrast to Table 6-6 in the Report, this figure does include the WCFCB. Our projections assume that the fund membership follows the one of NAPSA.

Table 6-4. Projection of health expenditure by source of financing, selected years

Source of financing	2007			2010			2015			2025		
	K billion	per cent total	per cent GDP	K billion	per cent total	per cent GDP	K billion	per cent total	per cent GDP	K billion	per cent total	per cent GDP
Government	636	21.4	1.4	993	23.9	1.5	2180	29.3	2.1	5056	36.0	2.6
Donors	1228	41.3	2.7	1616	38.8	2.4	2434	32.7	2.4	3889	27.7	2.0
Households	799	26.9	1.7	1106	26.6	1.7	1994	26.8	1.9	3563	25.4	1.8
Employers	212	7.1	0.5	315	7.6	0.5	601	8.1	0.6	1091	7.8	0.6
Others	96	3.2	0.2	134	3.2	0.2	238	3.2	0.2	444	3.2	0.2
<b>Total</b>	<b>2972</b>	<b>100.0</b>	<b>6.5</b>	<b>4164</b>	<b>100.0</b>	<b>6.3</b>	<b>7447</b>	<b>100.0</b>	<b>7.3</b>	<b>14 043</b>	<b>100.0</b>	<b>7.2</b>



Under the status quo scenario the overall level of expenditure on social sectors covering education, health and non-health contributory and non-contributory social protection would increase from approximately 14.0 to 16.0 per cent of GDP within the period 2020-2025; mainly due to the expected increase of expenditure on education and health (see Figure 6-7).

Unless there is a major shift in policy, overall expenditure on non-health social security will remain low. Due to demographic pressures the Government will have to increase the share of its total expenditure devoted to health and education. This means – if there are no changes in the current patterns of financing – there will be further heavy dependence on donors for health care (see Table 6-4).

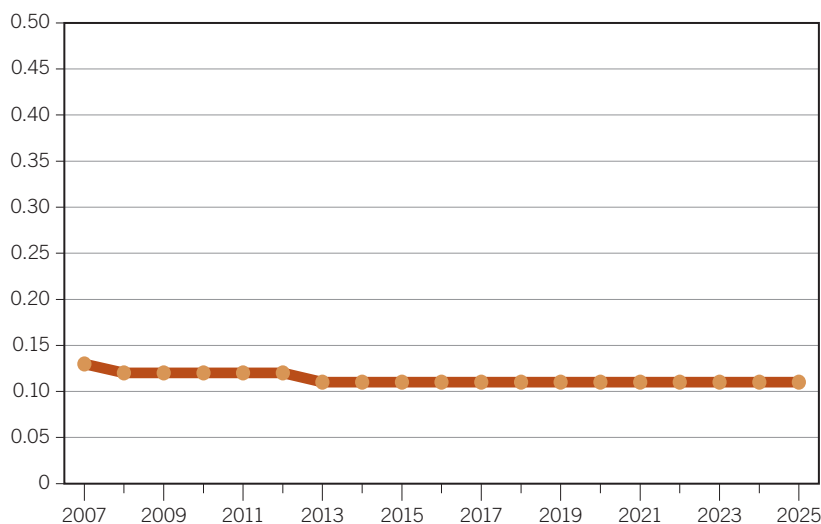
The position of the biggest social security scheme, NAPSA, remains healthy over the projection period but the recent actuarial valuation shows that unless there are major reforms undertaken reserves will stop increasing around 2025 and then will gradually reach zero. NAPSA must, at some time over the next few years, introduce reforms, reduce its expenditure on administration, extend coverage and increase investment returns (see Figure 6-11).

### Non-contributory social assistance: how to reach those in need?

Currently, existing social assistance programmes represent only 1.5 per cent of all social protection expenditure (including health) and slightly over 4 per cent of all non-health social protection expenditure. Taking into account such programmes are aimed at alleviating poverty, and more than half of the Zambian population is classified as very poor, this allocation is certainly far from sufficient. Unless there is a substantial policy change, this expenditure will not increase and will remain over time at a level well below 0.2 per cent of GDP (see Figure 6-13).

In recent years there has been a slight increase in social assistance expenditure due, to a large extent, to increased donor funding rather than greater budget allocations. The share of donor-funded social assistance has increased and may increase even more if plans to scale up cash transfer pilot schemes into a national programme are

**Figure 6-13. Evolution of expenditure on social assistance benefits, 2005-2025 (status quo) (percentage)**



accepted. However, for there to be long-term sustainability, such financing will need to be gradually taken over by budgetary allocations.

Although a thorough analysis of policy options to extend social protection coverage will be the subject of the second phase of our project, it is by no means too early to begin consideration of the policy developments which will be needed to address poverty and the needs of vulnerable groups. We therefore present a set of initial and approximate estimates to illustrate the scale of additional financing that would be needed.<sup>2</sup>

We looked at the future costs of three hypothetical benefits targeted at three specific groups of beneficiaries:

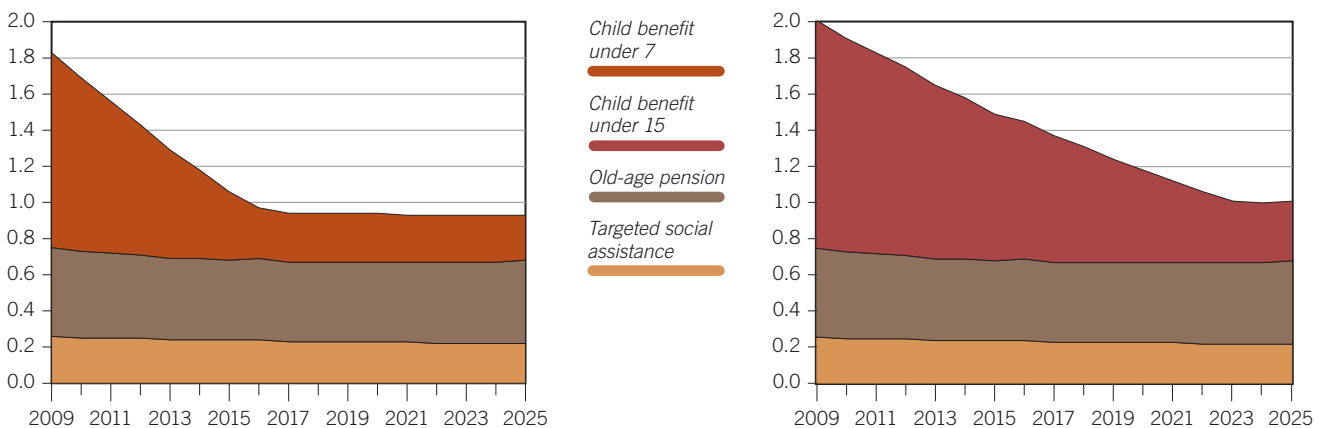
- a targeted social assistance scheme: vulnerable households and covering 10 percent of all households. We have assumed that this scheme and other simulated schemes will cover 100 per cent of the target group in the first year (2009). We have assumed a benefit per household equivalent to the average amount of benefit paid within the current cash transfer pilot schemes and adjusted annually for inflation (estimated to be K 52,725 per household per month in 2009);
- a universal pension for all persons aged 60 and over, starting with a monthly amount of K 60,000 in 2009;
- a child benefit with two variants:
  - paid to the first child up to age six, K 30,000 per month;
  - paid to the first child up to age fourteen, K 30,000 per month.

If fully implemented in 2009, such a targeted social assistance scheme would cost (without taking into account administration and delivery) K 154 billion. A pension for the elderly would cost K 291 billion – nearly twice as much due to a much greater number of beneficiaries. It is assumed for child benefit that in the first year of implementation all families with children will receive the benefit (at the level for one child); whereas, from then onwards claims will be paid only upon the birth of the first child. At the start the number of beneficiaries and the cost would be significantly higher than the two other programmes but would decrease quickly over the following years. Figure 6-14 shows benefit costs of all three hypothetical schemes until 2025 presented as percentage of GDP per capita.

These results should not be treated as policy recommendations, which should be developed as a result of a national debate involving all the stakeholders. These results illustrate that by allocating resources equivalent in the longer run to not more than 1.5 per cent of GDP, it would be possible to build the foundations of a social protection system.

<sup>2</sup> We do not cost separately here disability pension (persons with disabilities are, according to LCMS2004 about 2 per cent of Zambian population) but such a benefit should also be considered as one of the component of the future basic social protection system.

Figure 6-14. Costs of benefits provided by hypothetical non-contributory schemes (percentage)



## Conclusions

The importance of this Report is that it provides a comprehensive picture of existing social protection and allows the reader to look into the future on the basis of status quo projections for the next twenty years. It also includes a preliminary look at the possible provision of three benefits: universal old age pension; targeted social assistance; and child benefit, in order to provide some indicators as to a possible future minimum benefit package aimed at poverty alleviation. It confirms much existing knowledge and points to issues in relation to which there is need for action.

There are six key findings:

- Half of Zambia's population is extremely poor and programmes that are targeted to alleviate poverty are under-funded by the Government and highly donor-dependent.
- The labour market is highly informalized.
- Zambia is entering a demographic transition in a period of sustained economic growth: the population almost doubles with a large increase in the working-age population.
- Coverage by both non-contributory and contributory schemes is low, and benefits inadequate. There is a lack of overall coordination.
- Zambia is highly dependent on donor funding for health care.
- Zambia's external debt was greatly reduced (2006) but at the same time donor aid was reduced so that very limited fiscal space was created.

## Way Forward

- The Government needs to undertake a detailed public expenditure review with the aim of assessing the basis for, and redistributive impact of all kinds of existing transfers, subsidies and tax privileges in order to identify the fiscal space needed to finance priority social policies.
- The results of the work on informality of employment should feed into policy discussions on the extension of social protection coverage, together with a job creation strategy targeted at youth.
- There is scope to extend coverage by existing contributory and non-contributory schemes.
- A minimum package of universally acceptable benefits would be affordable – targeted social assistance and a universal pension would cost less than 1 per cent of GDP. A universal but limited child benefit scheme (first child only) would have higher start-up costs (1.2 per cent of GDP) but reduce over time.
- The next stage of the project needs to address the composition of a comprehensive social protection system and funding mechanisms.