POLICY BRIEF | August 2026

Turning Debt Relief into Investment for the Next Generation

Why Zambia must convert fiscal breathing space into better outcomes for children

SUMMARY

Zambia's debt crisis was not only a fiscal crisis. Rising debt service reduced Government's fiscal flexibility, limiting its ability to sustain and improve the education, health, nutrition, WASH and social protection services children depend on. In some sectors, this meant reduced budget priority; across sectors, it meant less predictable execution and pressure on the inputs that determine service quality. Children paid through reduced and less effective investment during their formative years, and they may pay again through the future repayment burden they inherit. As Zambia progresses with debt restructuring, the central challenge is to convert fiscal relief into better-financed, better-executed and more accountable investments in children.

Key messages

- **Debt distress reduced both fiscal space and spending effectiveness for children:** Rising debt service absorbed a growing share of domestic revenues, leaving fewer flexible resources for quality education, health, nutrition, WASH and social protection services.
- **Children were affected through both budget pressure and weaker services:** Education's budget share fell during the debt build-up, while execution volatility and limited quality inputs affected learning; health relied heavily on partner financing; and social protection depended on timely releases and adequate transfer values.
- **Debt restructuring creates fiscal space, but not an automatic child dividend:** Lower near-term debt service can ease budget pressure, but children benefit only if savings are deliberately channelled into protected allocations, timely releases, execution monitoring and better services.
- **Recovery must mean stepping up investments in children**: The true test of debt resolution is whether it strengthens human capital. This requires protected child-sensitive spending, better budget execution, stronger domestic financing and clear accountability for whether public resources are reaching children and improving services.

From Debt Build-Up to Sovereign Default

A Brief Snapshot of How We Got Here

Zambia's debt crisis did not happen overnight. After earlier international debt relief in the mid-2000s, when much of Zambia's old external debt was cancelled under global debt relief initiatives, the country entered the 2010s with relatively low external debt and room to borrow for development. Government increasingly relied on non-concessional and commercial borrowing, including three Eurobond issuances: US$750 million in 2012, US$1.0 billion in 2014, and US$1.25 billion in 2015. Some of this borrowing financed infrastructure and other development priorities, but it also changed the debt profile.

Zambia moved from a debt structure dominated by concessional lenders to one with more expensive foreign-currency commercial debt, much of it carrying higher interest costs and large repayment obligations in later years. At the same time, infrastructure financing, including loans linked to Chinese lenders and contractors, added to the external debt stock. When copper prices fell, the kwacha depreciated, fiscal deficits persisted and expenditure controls weakened, the cost of servicing debt rose quickly.

By 2019, investors were already demanding very high returns to hold Zambian bonds, with yields rising above 15 per cent, a clear market signal that the country was seen as increasingly risky. By 2020, debt service and the public sector wage bill together absorbed 83 percent of domestic revenues, up from 57 percent in 2011. This left far less funding available for discretionary spending, including medicines, learning materials, school infrastructure, nutrition programmes and social protection services that children rely on. [1,2,3]

MID 2000's

DEBT RELIEF & STABILITY

Zambia benefits from international debt relief initiatives, entering the next decade with relatively low external debt and room to borrow.

2012 -2015

EUROBOND ISSUED

Three Eurobonds issued: US$750 million (2012), US$1.0 billion (2014), and US$1.25 billion (2015)

2019

MARKET WARNING SIGNS

Bond yields rise above 15% as investors demand very high returns, signaling that Zambia is viewed as increasingly risky.

2020

FISCAL SQUEEZE & COVID-19

Debt service and public wage bills absorb 83% of domestic revenue (up from 57% in 2011). In May, Zambia applies for the G20 Debt Service Suspension Initiative to temporarily pause external payments amid pandemic disruptions.

FEBRUARY 2021

RESTRUCTURING INITIATED

Zambia formally requests debt treatment under the G20 Common Framework, beginning a complex restructuring process with multiple official and commercial creditors.

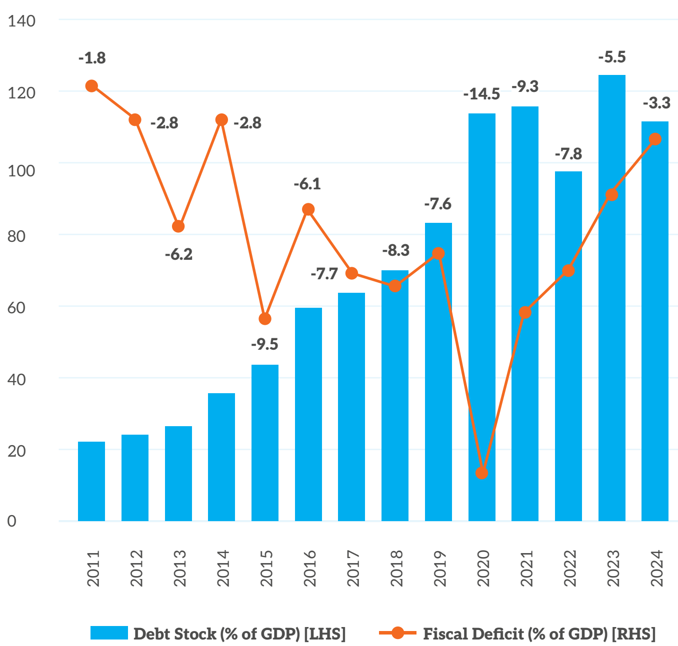
JUNE 2022

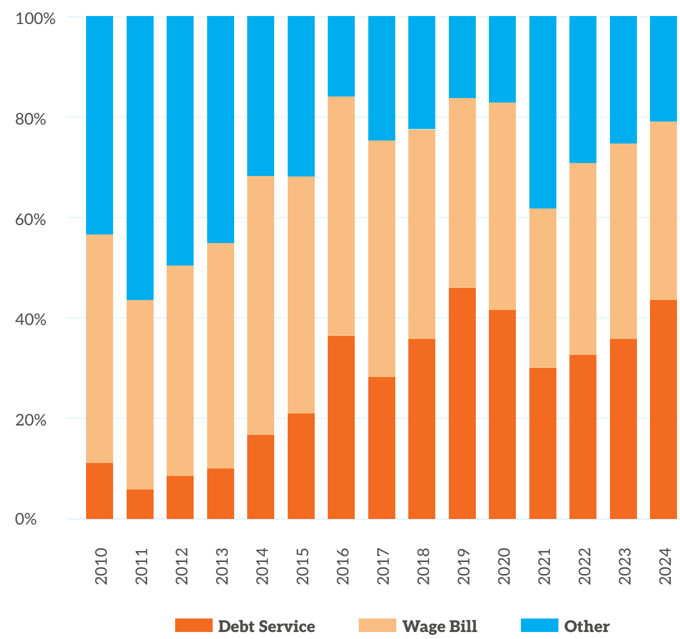
IMF APPROVAL

The Official Creditor Committee (co-chaired by China and France) is formed providing financing assurances.

The pressure intensified in 2020, when Zambia faced rising debt service and the COVID-19 shock at the same time. Mining, tourism, trade, manufacturing and construction were disrupted, and Government revenues came under pressure. To preserve limited fiscal space, Zambia applied for the G20 Debt Service Suspension Initiative in May 2020, which temporarily paused some external debt service payments. This created short-term breathing space, but it did not address the underlying debt burden because payments were largely postponed rather than reduced. [3,12,13]

Figure 1: **Fiscal and Debt Indicators (2011–2024); Figure 2: Non-Discretionary Spending as a Share of Domestic Revenues**





Source: Author's construction from Ministry of Finance and National Planning and IMF statistics.[1]
Note: Other includes discretionary spending.

What restructuring achieved, and what it did not

Zambia's restructuring process began formally in February 2021, when the country requested debt treatment under the G20 Common Framework. This marked the start of the successful restructuring path, but progress was slow because Zambia owed money to many different creditors, including official bilateral creditors, China-linked lenders, Eurobond holders and other commercial lenders.

The Official Creditor Committee, co-chaired by China and France, was formed in June 2022, and its financing assurances in July 2022 helped unlock IMF Board approval of the Extended Credit Facility in August 2022. In simple terms, creditors agreed that Zambia could move forward with an IMF-supported recovery programme while detailed debt negotiations continued. Positively, the IMF-supported programme included an aggregate social spending floor, which was an important starting point for protecting priority spending during adjustment, even though it was not designed as a child-specific floor. [3,12,13]

The major breakthrough came in 2024, when Zambia reached revised terms with Eurobond holders and advanced agreements with official bilateral creditors. The Eurobond deal restructured about US$3.84 billion in debt linked to the bonds maturing in 2022, 2024 and 2027, including lower near-term payments, longer repayment periods and a partial write-off of claims. The Government reported that bondholders would forgo about US$840 million and provide roughly US$2.5 billion in cash-flow relief during the IMF programme period. Official bilateral creditors also agreed to restructure around US$6.3 billion in debt. Together, these agreements reduced immediate debt service pressure and helped restore confidence. For children, this matters because lower near-term repayments can create fiscal breathing space for education, health, nutrition, WASH and social protection. But the relief is not automatic: it must be deliberately channelled into child-sensitive services, released on time and monitored for results. [2,3,14]

At the same time, restructuring did not erase Zambia's debt problem. Much of the relief came from changing when and how debt is repaid, rather than cancelling all obligations. Some instruments also include upside features, meaning that if Zambia's economy performs better, future payments to creditors could rise. This was part of the compromise needed to close the deal, but it also means that future budgets may still face pressure if growth, revenue mobilisation and spending discipline are not sustained. The lesson is simple: debt restructuring creates an opportunity, not a guarantee. Its developmental value depends on whether Zambia uses the breathing space to invest in children and strengthen the human capital needed for long-term growth and debt sustainability. [4,14]

POLICY TAKEAWAY

Debt restructuring can create fiscal space by lowering near-term debt service, but it does not automatically turn those savings into better outcomes for children. This requires deliberate commitments to rechannel part of the fiscal relief into child-sensitive services, supported by protected budget allocations, timely releases, execution monitoring and accountability for results.

How Debt Shaped Spending and Service Delivery for Children

Beyond Budget Shares: How Debt Pressure Reached Children

To understand how debt affected children, it is not enough to look at sector budget shares. A budget can increase on paper, but children only benefit when funds are released on time and used for the full package of services they need. This includes workers such as teachers and health staff, as well as medicines, school grants, classrooms, learning materials, nutrition supplies and social protection payments. This section therefore looks at three questions: whether child-sensitive sectors were prioritised, whether budgets were executed, and whether spending supported quality services.

The table below summarizes the main channels through which debt pressure reached children: reduced priority in some budgets, uneven execution, and pressure on the mix of inputs needed for quality education, health and social protection.

Table 1: Debt Pressure, Spending Delivery and Implications for Children

SECTOR	BUDGET PRIORITY (ALLOCATION)	HOW SPENDING WAS DELIVERED	IMPLICATIONS FOR CHILDREN
FISCAL SPACE	By 2020, debt service and the public sector wage bill absorbed 83% of domestic revenues, up from 57% in 2011.	The tight fiscal envelope squeezed discretionary spending, especially non-wage inputs such as medicines, school grants, learning materials, maintenance and social welfare delivery costs.	Children were affected even where sector allocations did not fall sharply, because the flexible resources that make services timely, adequate and effective were constrained.
EDUCATION	Education's budget share fell from 18.6% in 2011 to 12.4% in 2020, before partly recovering to 15.4% in 2024 as Free Education expanded access.	Releases fell short in several pre-default years, including by 14% in 2015, 13% in 2017 and 13% in 2019. They exceeded approved allocations during Free Education scale-up, reaching 24% above budget in 2022, before falling short again by 14% in 2024.	More children entered school, but volatile execution made it harder to finance the full package of teachers, classrooms, school grants, learning materials, maintenance and learner support needed for learning.
HEALTH	Health remained broadly prioritised, receiving around 9% of the national budget over much of the period, but allocations did not always translate into predictable releases.	Execution was uneven. Releases exceeded budget in some years, including 10% above budget in 2019, but fell short in others, including 20% in 2014, 23% in 2015, 40% in 2016, 26% in 2018 and 13% in 2024. Donors also financed a large share of health spending.	Child health outcomes improved, but uneven releases and reliance on external financing left services vulnerable, especially medicines, vaccines, outreach, equipment and primary health care.
SOCIAL PROTECTION	Social Cash Transfer allocations rose from around 0.2% of the national budget in 2012–2015 to 3.2% in 2018, declined to 2.4% in 2020, and increased to 5.4% by 2024.	Using SCT as a proxy for programme execution, releases were weak between 2012 and 2020, including shortfalls of 79% in 2012, 77% in 2013, 85% in 2019 and 23% in 2020. Execution improved sharply from 2021 to 2023 and was above budget in 2024 as the programme scaled up shock response.	Social protection helped shield vulnerable children during shocks, but its impact depended on predictable releases, timely payments and transfer values that kept pace with inflation and household needs.

Education

Expanding Access, but Quality Lagged Behind

- **Allocation priority.** Education was not consistently protected during the debt build-up. As debt service absorbed more domestic revenue, education's share of the national budget fell from 18.6 per cent in 2011 to 12.4 per cent in 2020. It later recovered to 15.4 per cent in 2024, supported by the expansion of Free Education. This recovery was important because it helped bring more children into school. However, access expanded faster than the resources needed to support quality. More learners meant greater demand for teachers, classrooms, school grants, learning materials, maintenance and learner support. For children, the main concern was therefore not only how much was allocated to education, but whether the system had enough predictable funding to turn access into learning.[1]

- **Execution and quality.** Approved education budgets did not always translate into predictable releases. Releases fell short in several years before default, including by 14 per cent in 2015, 13 per cent in 2017 and 13 per cent in 2019. During the Free Education scale-up, releases rose above approved allocations by 7 per cent in 2021, 24 per cent in 2022 and 10 per cent in 2023, helping the system respond to higher enrolment. But this was not sustained, with releases falling short again by 14 per cent in 2024. Such volatility makes planning difficult for schools and districts and can delay the classrooms, school grants, learning materials, maintenance and learner support needed to turn access into learning.

POLICY TAKEAWAY

Education spending must be protected not only to keep children in school, but to ensure they learn. As fiscal space improves, Zambia should prioritise predictable releases and stronger investment in the full package of education inputs, including teachers, classrooms, school grants, learning materials, maintenance and learner support, so that public spending translates into better learning outcomes.

Health

Progress depended heavily on donor support

- **Government broadly continued to prioritise health,** with the sector receiving around 9 per cent of the national budget over much of the review period. This helped protect core services, but higher nominal allocations did not always translate into predictable financing. Inflation reduced the value of spending, and releases fell short in several years during the debt build-up, including by 20 per cent in 2014, 23 per cent in 2015, 40 per cent in 2016 and 26 per cent in 2018. Releases improved after 2020, but still fell short by 13 per cent in 2024. For health facilities, this kind of volatility can affect the timely availability of medicines, vaccines, equipment, outreach and other frontline inputs.[1]

- **For children, the health story is one of resilience, but also risk.** Child health outcomes improved, including reductions in under-five mortality and higher immunisation coverage. However, these gains were supported by unusually high levels of external financing. Development partners financed around 42 per cent of current health expenditure between 2013 and 2016, and external health expenditure remained high at 47.9 per cent in 2023. This support helped cushion the sector during fiscal stress, but it also exposed the limits of domestic financing. As aid becomes less predictable, Zambia's debt recovery needs to strengthen domestic financing for frontline health services while preserving effective partnerships. The priority is to ensure that health workers have the medicines, vaccines, equipment, outreach and primary health care support they need to serve children. [5,6,7,8]

POLICY TAKEAWAY

Health spending was broadly protected, but children benefit only when funds are released predictably and frontline services have the medicines, vaccines, equipment, outreach and primary health care support they need. As external financing becomes less predictable, Zambia should strengthen domestic health financing while preserving effective partnerships.

Social Protection

Protected During the Crisis, but Delivery Challenges Remained

- **Social protection provides the clearest example of a child-sensitive programme** that became increasingly important during fiscal stress. In this section, the Social Cash Transfer is used as a proxy for social protection execution because it is Zambia's flagship poverty-focused programme and the main cash-based support reaching many vulnerable households with children. SCT allocations rose from around 0.2 per cent of the national budget between 2012 and 2015 to 3.2 per cent by 2018. Allocations declined to 2.4 per cent in 2020 following payment-system challenges and broader fiscal pressures, but increased steadily thereafter, reaching 5.4 per cent of the national budget by 2024. This reflected growing political commitment, development partner support, and the programme's use in responding to poverty, COVID-19, drought and cost-of-living pressures. [1,9]

- **The execution pattern shows why allocation protection alone was not enough.** Between 2012 and 2020, SCT releases were consistently below approved allocations, with shortfalls of 79 per cent in 2012, 77 per cent in 2013, 54 per cent in 2016, 42 per cent in 2017, 37 per cent in 2018, 85 per cent in 2019 and 23 per cent in 2020. Execution improved sharply from 2021, with releases slightly above budget in 2021 and close to full execution in 2022 and 2023. In 2024, releases were substantially above the approved allocation, reflecting the programme's scale-up as a shock-response tool during drought and cost-of-living pressures. For vulnerable children, this reinforces the central point of the paper: social protection only delivers a child dividend when payments are released predictably, reach households on time and maintain enough real value to protect wellbeing. [1,9]

POLICY TAKEAWAY

Protecting social protection allocations is necessary, but predictable execution, timely payments and adequate, inflation-sensitive transfer values determine whether public spending actually improves children's lives.

Why Zambia's Children Are Likely to Pay Twice

Children bear the costs of debt distress in two linked ways. The first is immediate. When debt service absorbs a large share of public resources, Government has less flexibility to finance the services children need during the most important years of their development. By 2020, debt service and the public sector wage bill absorbed 83 per cent of domestic revenues, leaving only 17 kwacha of every 100 kwacha collected for all other priorities. As the sector analysis shows, the impact was not always visible as lower social sector allocations. Instead, children were affected through both reduced budget priority in some areas and weaker spending effectiveness across sectors: education access expanded but financing for classrooms, school grants, learning materials and learner support did not always keep pace; health outcomes improved but frontline services remained dependent on donor financing; and social protection became more important but depended on timely releases and adequate transfer values. The first cost children pay is therefore reduced and less effective investment in the services that shape their lifelong opportunities.

The second cost is intergenerational. Debt restructuring has reduced near-term debt service and created valuable fiscal breathing space, including through lower financing costs and longer repayment periods.2 But restructuring has not erased Zambia's repayment obligations [2]. In the 2026 National Budget, debt service is projected at K73.7 billion, or 29.1 per cent of total government expenditure, almost the same as the K74.9 billion allocated to key social sectors combined.[11] This means today's children may inherit both the benefits and the costs of past borrowing. If fiscal relief is not deliberately invested in their education, health, nutrition, WASH and social protection, future generations could face a weaker human capital base while still carrying the responsibility of repayment.

This is the essence of the "pay twice" argument. Children first pay when debt pressure weakens the quality, reliability and adequacy of public services during childhood. They may pay again as adults if the economy must continue servicing debt without having first invested enough in their productivity, skills and wellbeing. The two costs are connected. Underinvestment in children today can weaken the future labour force, reduce earnings, narrow the tax base and make debt harder to manage tomorrow. Turning debt relief into a child dividend is therefore not only a social priority; it is also central to Zambia's long-term growth and fiscal sustainability.

POLICY TAKEAWAY

Debt pressure affected children through both reduced budget priority in some sectors and weaker service delivery across sectors. The result was less effective investment in the quality, timeliness and sustainability of services that shape children's lifelong opportunities.

Policy Recommendations:

Turning Zambia's Debt Resolution into a Child Dividend

Debt relief gives Zambia an opportunity to do more than restore fiscal stability. The priority now is to convert fiscal breathing space into better-financed, better-executed and more accountable investments in children.

1 Establish a Child-Sensitive Social Spending Floor

Establish a child-sensitive social spending floor that protects children's access to education, health, nutrition, WASH and social protection during fiscal adjustment. Zambia's IMF-supported programme already included an aggregate social spending floor, which was a useful starting point; the next step is to make such protections more child-sensitive and link them to execution and service delivery. The floor should cover both allocations and execution so that protected resources are budgeted, released on time and spent on services that reach children.

2 Protect Frontline Service Delivery

Protect the full package of frontline service inputs. This includes teachers, health workers and social welfare staff, as well as the medicines, vaccines, learning materials, school grants, nutrition supplies, WASH services and timely cash transfers they need to deliver results for children.

3 Strengthen Sustainable Financing While Preserving Partnerships

Strengthen domestic financing for essential child services while preserving effective partnerships. Development partner support remains critical, especially in health and nutrition, but Zambia's debt recovery should gradually reduce vulnerability to unpredictable external financing by improving domestic funding and integrating partner resources into medium-term sector plans.

4 Measure Success Through Service Delivery

Measure success by what reaches children, not only by what is budgeted. Quarterly monitoring should track release rates, execution, procurement, payment timeliness and the availability of key inputs in schools, health facilities and social protection delivery systems.

5 Strengthen the Child Impact Analysis of Borrowing Decisions

Integrate child impact analysis into borrowing and debt decisions. Reviews of the Annual Borrowing Plan, debt strategies and major financing choices should assess implications for fiscal space, child-sensitive spending, execution and service delivery outcomes across education, health, nutrition, WASH and social protection.

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