

I. COUNTRY REFORM PROGRESS

The Global Public Finance Partnership (GPFP) project has supported advancing Zambia's fiscal reforms, achieving key outcomes in the areas of tax policy, revenue administration and public financial management (PFM). IMF fiscal capacity development (CD) priorities align well with the strategic objectives of Zambia's Integrated Public Financial Management Reform Strategy 2024-27 (IPFM-RS) and important structural reforms and benchmarks established by the IMF's Extended Credit Facility lending program, which provide the groundwork for integrated CD delivery across all fiscal workstreams.

Zambia has a strong development partners' presence and support in these fields (major partners being the World Bank, European Union, and German Agency for International Cooperation (GIZ)). The authorities have been actively engaged with the partners to ensure the effective coordination of their support, including through inviting the partners to identify and support the specific workstreams of the IPFM-RS.

On the revenue side, the IMF's Fiscal Affairs Department's (FAD) review and feedback of the tax expenditure report published in December 2024 covering most income tax, excise tax, and customs measures helped the authorities to improve transparency on the use of tax incentives in Zambia. In April 2025, FAD undertook a comprehensive diagnostic of the tax system. The recommendations will help improve the fairness and efficiency of the tax system by making it more principles based. The Zambia Revenue Authority (ZRA) has made positive strides in implementing key recommendations from recent FAD missions, such as establishing the Risk Management Unit (RMU), the CRM Steering Committee (CRMSC), and the CRM Implementation Committee (CRMIC). Also, the value-added tax (VAT) control model, including refunds, has been incorporated into the CRM framework, and more than 80 percent of VAT taxpayers are using the system. Progress has been also made on recommendations regarding the Large Taxpayer segment and External Fraud.

On the spending side, FAD conducted a Public Investment Management Assessment (PIMA) update and Climate-PIMA in November 2024. Given the significant vulnerability of public infrastructure to climate change and the constrained fiscal environment, maximizing the efficiency of public investment is paramount. The PIMA update and Climate-PIMA (C-PIMA) recommendations will inform ongoing reform initiatives aiming at strengthening the efficiency and climate resilience of public investment in Zambia.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy

Key Progress in FY25: The authorities published a tax expenditure report in December 2024 that covers most income tax, excise tax, and customs measures. They requested FAD review of the publication, which was provided in February 2025. This will help to improve transparency on the use of tax incentives in Zambia. In response to a request from the authorities about revenue forecasting, they were given information about FAD's online course on revenue forecasting. In April 2025, at the request of the authorities, FAD ran a two-week mission to provide a diagnostic of the tax system. The recommendations, if implemented, will improve the fairness and efficiency of the tax system by making it more principles based.

Previous Progress: The publication of tax expenditures and the government's commitment to harmonize corporate income tax rates represent progress based on a 2019 CD report, which the FY25 activities will

continue to advance. The authorities also implemented changes to the resource royalty regime following a 2021 mission; the diagnostic suggests next steps to round out a robust regime for taxing the resource sector.

Next Steps: The authorities are contemplating next steps, including in what areas additional CD will be helpful and which measures to prioritize for short-term action. Existing funding in the GPFP project is available for a further mission depending on the authorities' needs.

Revenue Module II – Revenue Administration

Key Progress in FY25: The ZRA has made positive strides in implementing key recommendations from recent FAD missions. Establishing the RMU, CRMSC, and the CRMIC—which held its first meeting in November 2024—are notable milestones. Progress has been also made on recommendations regarding the Large Taxpayer segment and External Fraud.

The e-invoicing system is mandatory for all VAT taxpayers; however, there is no specific obligation for government bodies. The VAT control model, including refunds, has been incorporated into the CRM framework, and more than 80 percent of VAT taxpayers are using the system.

Next Steps: Next missions will assist in maintaining CRM implementation momentum. This includes advancing key recommendations to integrate CRM into ZRA's Corporate Strategic Plan extension, establishing CRM governance in the new operating model, operationalizing the RMU, developing taxpayer market segment parameters, and finalizing the compliance improvement plans.

Spending Module II – Managing Public Finance

Key Progress in FY25: To support the authorities' desire to access to the IMF's Resilience and Sustainability Facility (RSF), FAD conducted the PIMA update and C-PIMA in November 2024. Zambia is classed as vulnerable to climate change, with a significant impact expected on agriculture and energy infrastructure. Infrastructure investment will be key to both climate change adaptation and mitigation strategies, and should be delivered as efficiently as possible given Zambia's resource constraints. The PIMA update and C-PIMA recommendations will inform ongoing reform initiatives aiming at strengthening the efficiency and climate resilience of public investment in Zambia.

Next Steps: IMF plans to further support the strengthening of Zambia's fiscal framework and natural resource management, reforms on green PFM and enhancing the climate resilience of public infrastructure; as well as assessing the fiscal impact of macroeconomic and climate shocks.

III. LOGICAL FRAMEWORK

Country – Zambia		
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 3
Outcome	Rating	Narrative
Improved transparency and outreach	3 Largely Achieved	Oct 2024 - TA delivery has not yet started. Dec 2024 – The authorities published tax

		expenditures for most income tax, excise tax, and customs measures. This will help increase transparency of the fiscal impact of tax expenditures, increase awareness of their cost, and improve the capacity of the authorities to estimate fiscal impacts. Feb 2025 – FAD provided advice on improving the tax expenditure report. Through improvements to the presentation of the tax expenditures, there will be greater accountability associated with targeted interventions by the government through the tax system.
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	Oct 2024 - TA delivery has not yet started. Dec 2024 - provided information on FAD's self-learning course on revenue forecasting. April 2025 - TA mission provided a diagnostic on the tax system. The recommendations, if implemented, should increase the efficiency, policy coherence, and revenue-generating capacity of the tax system.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 2
Outcome	Rating	Narrative
A larger proportion of taxpayers meet their payment obligations as required by law	2 Partially Achieved	The e-invoicing system is mandatory for all VAT taxpayers; however, there is no specific obligation for government bodies. The VAT control model, including refunds, has been incorporated into the CRM framework, and more than 80 percent of VAT taxpayers are using the system.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 3
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	3 Largely Achieved	The ZRA is at a critical juncture in its CRM implementation, as recent progress challenges existing processes, structures, and technology. Key risks include inadequate resource allocation, an aging and inflexible technology platform, staff resistance to change, and managing heightened stakeholder expectations. Embracing a structured change management

		approach and establishing realistic timelines will be essential for gaining staff support throughout the journey.
SM II: Objective – Frameworks to Build Sustainable Fiscal Institutions and Frameworks - FIF		Rating - 2
Outcome	Rating	Narrative
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and SDGs	3 Largely Achieved	PIMA update and Climate-PIMA was delivered during November 6-19, 2024. These assessments will identify opportunities to improve the efficiency of public investment in Zambia and to ensure climate considerations are appropriately incorporated in public investment practices.
Strengthened capacity to plan, implement and sustain infrastructure governance	3 Largely Achieved	PIMA update and CPIMA was delivered during November 6-19, 2024. These assessments identified opportunities to improve the efficiency of public investment in Zambia and to ensure climate considerations are appropriately incorporated in public investment practices.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I, RM II: Deterioration of fiscal situation may impact availability of resources to finance reforms.	High	Careful alignment of reforms with the main priorities of the government. Reforms at ZRA and Ministry of Finance are underpinned by comprehensive strategic plans, and the project results from the respective governments' strategic decision to reduce non-compliance and modernize its risk management capabilities.
SM II: Volatility in commodity markets, trade policy and donor funding, and climate events and spillovers from crises in other countries could have domestic impacts that may impact CD delivery	High	Flexible CD delivery.
Political Support		
SM II: Large number of competing reform priorities may impact political commitment to Climate related reforms	Medium	Coordinate closely with the IMF's African Department (AFR) and other development partners (donor troika) on the ground to ensure political commitment. Engage with senior political officials on actions to implement.

Description	Rating	Mitigation Measures
Management and Technical Staff Support and Commitment		
RM I, RM II: Continuous rotation of managers and staff undermines the absorptive capacity and provokes permanent discontinuity.	Low	Encourage authorities to implement administrative reforms that contribute to a more stable staff. Continual/regular high-level engagement and monitoring.
SM II: Risk to the level of commitment by the authorities' staff and their supervisors to undertake the desired tasks, take decisions, and follow-through with recommended actions provided under the CD.	Low	Coordinate with AFR.
Resource Adequacy		
RM I, RM II: Resources are misused, not properly accounted for, do not achieve value for money.	Low	Project resources will be employed in accordance with the Fund's policies and procedures, including in particular its Travel Policy.
SM II: The adequacy of human and financial resources and/or suitable physical infrastructure (buildings and equipment) and technology within the targeted unit(s) to conduct the desired function	Medium	Continue stressing allocating resources in priority areas that require immediate attention and invest in training programs to enhance the skills of existing personnel.
Other Risks		
RM I, RM II: Multiple donors are providing technical assistance on CRM topics; and gaps, or overlaps may arise as a result.	Low	Take an active role in engaging with other donors to ensure support is well coordinated, especially with GIZ.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
Nino Tchelishvili (FADM1)	Kevin Shoom (FADT2) Enrique Rojas (FADR2) Nino Tchelishvili (FADM1)	KShoom@imf.org ERojas@imf.org NTchelishvili@imf.org