The Examination of the Zambia's Debt Sustainability

Analysis and Fiscal Risk Management Framework Post Enactment of the Public Debt Management Act

actionaid

Acknowledgment Statement

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List of Acronyms

AIP - Agreements in Principle

CI - Debt-Carrying Capacity Composite Indicator

CSO - Civil Society Organisations

DMF - Debt Management Framework

DSA - Debt Sustainability Analysis

DSF - Debt Sustainability Framework

FRS - Fiscal Risks Statement.

GDP – Gross Domestic Product

IDA - International Development Association

IMF – International Monetary Fund

MFNP - Ministry of Finance and National Planning

MOU - Memorandum of Understanding

MTDS - Medium-Term Debt Strategy

MTEF - Medium-Term Expenditure Framework

MTFF - Medium-Term Fiscal Framework

NBS - National Budget Strategy

OCC - Official Creditor Committee

PDMA - Public Debt Management Act

PFMF - Public Finance Management Frameworks

PGRT - Poverty Growth Reduction Trust

PPG - Public and Publicly Guaranteed Debt

SOE - State-Owned Enterprises

WB - World Bank

1.0 BACKGROUND

The Zambian Government enacted a new law, the Public Debt Management Act (PDMA) No. 15 of 2022 as part of the measures to enhance the Debt Management Framework. The Act mandates the Government to conduct annual Debt Sustainability Analysis (DSA). The DSA exercise is conducted with a view to ascertaining the sustainability of public debt over the medium to long term. Emphasis is placed on key debt burden indicators, such as the size of debt relative to GDP as well as the share of domestic revenues needed to meet debt service obligations.

The DSA exercise also identifies risks and vulnerabilities associated with the debt portfolio and proposes remedial policy interventions to mitigate such risks and vulnerabilities. The DSA informs decision making at different levels of Government and is a key input into Government's Medium-Term Debt Strategy, the National Budget Strategy, the Medium-Term Fiscal Framework, and the Fiscal Risks Statement.

Elevated levels of public debt bring fiscal risks, including increased vulnerability to shocks, susceptibility to banking crises, and the diversion of resources from productive uses to debt payment obligations. In the extreme case of debt default, collateral damage to the economy can be significant from loss of market access, higher borrowing costs (with potential persistent effects), reduction of private lending, debt defaults and expensive lawsuits. The opportunities and risks associated with public debt therefore compel an assessment of debt sustainability and fiscal risk assessment.

2.0 GENERAL OBJECTIVE.

This paper therefore examines the implications of the Debt Sustainability Analysis (DSA) and assess the Fiscal Risk Management in the context of the Public Debt Management Act (PDMA) and the Public Finance Management Act of 2018. The research assesses the Debt Sustainability Analysis (DSA) against government's commitments to actualise the debt sustainability strategy and fiscal risk management framework. The generated evidence will enable ActionAid Zambia and other none-state actors to capacitate and support civil society organizations to meaningfully engage in evidence-based dialogue with the duty bearers to influence policy decisions and will be practical enough to be taken forward by anti-austerity advocates to contribute to changing the policy landscape.

The primary objectives of this research paper are:

1. Examine the key provisions of the Public Debt Management Act of 2022 related to debt sustainability and fiscal risk management.
2. Evaluate the findings of the Debt Sustainability Analysis produced by the Ministry of Finance and government's implementation of the Debt sustainability provisions
3. Assess the government's efforts to establish and operationalise the fiscal risk management framework,

3.0 METHODOLOGY

3.1 Data Collection Methods

A mixed-methods approach was employed, combining both qualitative and quantitative techniques to ensure a comprehensive analysis. The data collection methods included:

(i) **Desk Review:** An in-depth review of the Debt Sustainability Analysis (DSA) and Financial Risk Framework implementation, aligned with the Public Debt Management Act. This included an assessment of DSA reports, policy frameworks, and other key documents to evaluate their compliance, effectiveness, and impact

(ii) **Primary Data Collection:** Structured questionnaires were administered to key informants, allowing for direct engagement with various stakeholders who are involved—either directly or indirectly—in the Public Debt Management (PDM) process.

(iii)

3.2 Data Analysis: A combination of qualitative and quantitative techniques was utilised to analyse the collected data. The findings were systematically examined to extract meaningful insights and formulate well-informed recommendations.

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3.3 Case Studies

Recent fiscal reports and debt sustainability assessments conducted by the World Bank, International Monetary Fund (IMF), and the Zambian Ministry of Finance and National Planning were analysed. These case studies provided practical insights into how the Public Debt Management Act has been implemented and its implications in real-world scenarios.

4.0 ZAMBIA'S ECONOMIC BACKGROUND AND DEBT MANAGEMENT FRAMEWORK

Historically Zambia's economy has been predominantly reliant on copper mining, which accounts for over 70 Percent of export earnings. The fluctuations in global copper prices have had a direct impact on the country's fiscal health. Previously, Zambia relied on concessional external financing for infrastructure development and budget support.

However, in 2011 when the country was reclassified to a lower middle-income country category, there was a significant reduction in concessional financing available to Zambia. The Government, therefore, resorted to non-concessional borrowing which is generally considered more expensive especially for developing countries. This is a trend exhibited on the global front, there is a notable inequality that exists between rich and poor countries, especially pertaining to economic performance and debt sustainability. In a report titled *World of Debt,* the United Nations Conference on Trade and Development (UNCTAD, 2024) highlighted the growing inequality between rich and poor countries particularly in terms of debt sustainability. Public debt in developing countries is rising at twice the rate of that in developed countries, with significant regional disparities. This uneven growth in debt is exacerbated by the high costs of external public debt, which developing countries face due to the international financial architecture. This system limits their access to affordable development finance, pushing them to borrow from more volatile and expensive external sources, making them more vulnerable to external shocks and financial instability.

Since 2010, the portion of external public debt owed to private creditors has risen across all regions, presenting challenges such as increased complexity in debt restructuring and higher borrowing costs. The increase in interest rates by central banks worldwide since 2022 has also had a direct impact on public budgets in developing countries, with net interest payments on public debt reaching US$ 847 billion in 2023. More than half of developing countries allocate at least 8 Percent of government revenues to interest payments, constraining spending on essential public expenditures such as health and education.

Although in Zambia external debt was as low as 12.1percent of GDP in 2012, standing at $3.1 billion and domestic debt at K5.1 billion representing 11.5 Percent of GDP, these debt stock figures quickly escalated and by end of December 2019, external debt was US$11.2 billion and domestic debt at K80.2 billion.

Between 2015 and 2019, declining growth driven by low copper prices and production, currency depreciation, and inadequate fiscal policies led to rising public debt, which reached unsustainable levels. Escalated external debt servicing costs further caused expenditure switches with the Government neglecting to pay its domestic obligations in favour of external commitments and eventually accumulated domestic **arrears** stood at K26.2 billion by end December 2019 up from K20.3 billion in June 2019. By 2020, Zambia's total public external debt stood at approximately $12.8 billion, leading to a default on its external Eurobond coupon payment of $42bn that exposed the fragility of its economic structure (World Bank, 2022). The country defaulted on its Eurobond payments in 2020, primarily due to public debt mismanagement, declining commodity prices, and the economic impacts of the COVID-19 pandemic. As of 1st July, 2022, Zambia's Gross National Income (GNI) per capita stood at US $1,040. This led to Zambia's income status classification to a low-income country and this resulted in consequent eligibility to access concessional financing under the International Development Association (IDA) window and eligibility for the IMF Poverty Growth Reduction Trust (PGRT) window.

The enactment of the Public Debt Management Act of 2022 (PDMA) repealed the Loans and Guarantees (Authorisation) Act of 1969 and provided as a crucial step towards establishing a comprehensive framework for enhanced public debt management framework and fiscal responsibility. Until 2019 Zambia did not have a fiscal risk framework. Even though the Public Finance Management Act No.1 of 2018, Section 11 (1) (a) required Controlling Officers, to maintain an effective, efficient and transparent risk management system. However, it is worth mentioning that the PDMA was enacted when Zambia's debt was beyond all the debt sustainability threshold parameters and therefore only comes into full effect after 5 years. The assessment therefore is based on the World Bank LIC Debt Sustainability Framework.

5.0 LEGAL FRAMEWORK IN ZAMBIA ON DEBT MANAGEMENT AND FISCAL RISK MANAGEMENT

5.1 The Constitution Act of 2016

The Constitution Act of 2016 serves as the supreme legal framework in Zambia, empowering the government to raise, guarantee, and manage public debt repayment. It stipulates that all obligations related to public debt such as interest payments, contributions to the sinking fund, and associated costs—must be charged to the Consolidated Fund or other specified public funds. The Constitution articulates fundamental principles of public finance, highlighting the importance of sustainable borrowing to ensure inter generational equity.

Moreover, Zambia's Constitution mandates oversight by the National Assembly, requiring its approval for any new public debt. This ensures a crucial check on executive borrowing decisions. To enhance transparency, the Constitution empowers the Supreme Audit Institution, led by the Auditor General, to conduct audits and publicly disclose findings related to public financial information, including public debt management.

5.2 Public Debt Management Act

The Public Debt Management Act (PDMA) No. 15 of 2022 is the principal legislation governing public debt management in Zambia currently. It addresses mandates, institutional frameworks, and operational aspects of managing public debt. The PDMA repealed and replaced the Loans and Guarantees Authorisation Act of 1969 in 2022, which was considered insufficient for effective debt management. The new Act introduces significant enhancements to improve transparency in public debt, strengthen parliamentary oversight over loan acquisition, and formalise debt management processes.

The PDMA is implemented through Statutory Instrument No. 31 of 2024, titled The Public Debt Management (Appointment of Agent) Regulations, 2024.

5.3 Public Finance Management Act 2018

The Public Finance Management Act of 2018 serves as a key legal framework governing public financial management and administration, including provisions for fiscal responsibility. It outlines an extensive system for budget preparation and execution, cash management, public debt oversight, accounting, auditing, and financial reporting. The Act specifically designates responsibilities to the Treasury, empowering the Secretary to the

Treasury to manage public debt and to compile an annual report detailing assets and liabilities, which encompasses a thorough account of public debt. Furthermore, it specifies that debt and associated payments are to be treated as a priority charge on the Consolidated Fund, thus ensuring their precedence in the national financial framework.

Complementary legislation, such as the Central Bank laws, regulates government borrowing from central banks and defines the central bank's role as the government's fiscal agent.

5.4 Access to Information (ATI) Act and Its Implications for Debt Management

The Access to Information (ATI) Act in Zambia plays a crucial role in promoting transparency and accountability in public debt management. By mandating that public institutions provide timely and accurate information to citizens, the ATI Act ensures that the public can access essential data on government borrowing, debt levels, and fiscal risks. This transparency is vital for fostering informed public discourse and enabling civil society organisations (CSOs) to engage in evidence-based advocacy. The ATI Act also empowers citizens to hold the government accountable for its debt management practices, thereby contributing to more responsible and sustainable fiscal policies.

Moreover, the ATI Act facilitates better decision-making by providing stakeholders with the information needed to assess the implications of public debt on the economy thereby allowing citizens to monitor debt levels and allow for informed advocacy for effective debt management practices. For instance, access to detailed reports on debt sustainability and fiscal risk assessments allows CSOs and other stakeholders to identify potential risks and advocate for necessary policy interventions. This proactive approach helps mitigate the adverse effects of unsustainable debt levels and ensures that debt management strategies are aligned with the country's long-term economic goals. By enhancing transparency and promoting informed participation, the ATI Act strengthens Zambia's overall debt management framework and supports the achievement of fiscal sustainability and is therefore a vital legal instrument in the quest of effective debt management practices.

5.5 The Role of the World Bank and IMF in Ensuring Debt Sustainability

The World Bank Group and the International Monetary Fund (IMF) play an influential role in promoting debt sustainability among low-income countries through their collaborative efforts in conducting regular Debt Sustainability Analyses (DSAs) that promote austerity. These analyses are comprehensive evaluations that assess the debt situations of developing nations based on established frameworks like the Debt Sustainability Framework. In the context of Zambia, the Low-Income Countries-Debt Sustainability Framework (LIC-DSF) is specifically utilised to carry out these assessments. This framework aids in evaluating the current and projected debt levels of countries, providing an in-depth understanding of their repayment capabilities.

The institutions apply the LIC-DSF not only to evaluate existing debt levels but also to guide the borrowing strategies of low-income countries. By utilising this framework, they ensure that the financing requirements of these nations are in line with their current and future abilities to repay debt, thus promoting fiscal responsibility and economic stability.

The focus of the World Bank and IMF in this area encompasses three primary objectives:

1. **Path to Sustainable Development**: One of the key goals is to ensure that countries receiving debt relief are progressing towards sustainable development. This involves helping these nations implement policies that foster economic growth, improve governance, and enhance public financial management, which collectively contribute to long-term sustainability and reduced reliance on external debt.
2. **Risk Awareness for Creditors**: The collaboration also enables creditors to better anticipate potential risks related to debt sustainability. By providing detailed analyses and forecasts, the World Bank and IMF equip lenders with the information necessary to tailor financing terms that accommodate the unique economic circumstances of low-income countries, thereby minimising the risk of default.
3. **Balancing Funding Needs and Repayment Capacity**: Finally, the institutions assist client countries in striking an appropriate balance between their funding needs and

their capacity to service debt. This involves advising on prudent borrowing practices and helping to structure loans in a manner that ensures they do not overwhelm the country's fiscal resources, ultimately safeguarding against financial crises.

Through these efforts, the World Bank and IMF contribute significantly to the establishment of financial practices in low-income countries, fostering an environment where debt can be managed sustainably and economic development can be pursued effectively (World Bank & IMF, n.d.)

6.0 AN EXAMINATION OF THE KEY PROVISIONS OF THE PUBLIC DEBT MANAGEMENT ACT OF 2022

The Public Debt Management Act of 2022 contains several crucial legal provisions designed to promote debt sustainability and assess fiscal risk effectively. It mandates regular assessments, fostering transparency, encouraging diversification of financing sources, and emphasising capacity building, the Act provides a comprehensive framework for managing Zambia's public debt responsibly and sustainably. The country's debt is kept on a sustainable path by carrying out annual Debt Sustainability Analysis (DSA) which is in line with the Medium-Term Debt Strategy. The oversight of the management of public funds is extended to State Owned Enterprises (SOEs) through on-lending and issuance of sovereign guarantees.

The PDMA **under section 40 (1)** mandates the Ministry of Finance to conduct annual debt sustainability analyses (DSAs). Every year the Minister is required to conduct a debt sustainability analysis. This analysis is an assessment of the way Zambia's current level of public debt and prospective borrowing affects the present and future ability to meet debt service obligations. The analysis must be published by the end of the first quarter of the following financial year. In addition to this analysis, the Minister is required to prepare, and publish, in every quarter of the year, a debt statistical bulletin which generally gives an overview of the Government's debt position **Section** 6(1) of the PDMA specifies that these assessments evaluate the sustainability of public debt in relation to the country's GDP, fiscal capacity, and ability to service obligations.

6.1 Fiscal Risk Management (Section 6)

The Act requires the identification and management of fiscal risks, particularly those arising from contingent liabilities. **Section 6(a)(h)** states that the government must regularly identify fiscal risks and develop strategies to mitigate them, especially for SOE. A 2022 Auditor General's report highlighted significant fiscal risks associated with Zambia Electricity Supply Corporation (ZESCO), which had accumulated substantial debts due to operational inefficiencies.

6.2 Reporting and Transparency (Section 40)

The Act emphasises the necessity for transparent reporting on public debt levels and fiscal risks. **Section 40 (1)** mandates that the government publishes quarterly and annual reports on public debt and fiscal management. In early 2023, the government published its Quarterly Revenue Report, indicating a 10 Percent revenue shortfall compared to projections. This shortfall increased the urgency for transparent communication regarding fiscal health and management strategies.

6.3 Diversification of Financing Sources (Section 8)

The Act promotes the diversification of financing sources and debt instruments to reduce reliance on traditional avenues of deficit financing that could be costly. **Section 8(1)** encourages the exploration of alternative financing mechanisms, such as bilateral agreements and concessional loans. In 2023, the Zambian government-initiated discussions with China for infrastructure financing, reflecting a strategic shift toward seeking diverse funding sources to bolster economic resilience.

6.4 Public Debt Management Strategy (Section 9)

Establishes the requirement for a comprehensive public debt management strategy. **Section 9(1)** outlines that the Ministry of Finance must develop a strategy that aligns with the country's economic goals and debt sustainability. The Ministry presented a revised public debt management strategy in late 2022. The Public Debt Management Strategy 2023-

2025 is to align with the provisions of the Act, focusing on maintaining a sustainable debt portfolio and enhancing financial governance. This provision mandates the Minister to submit an annual borrowing plan to the National Assembly after review.

6.5 Capacity Building and Training (Section 10)

The Act includes provisions for capacity building in public finance management. **Section 10(1)** emphasises the need for training programs for public finance officials to enhance skills in debt management and fiscal analysis. In 2023, the government partnered with international organisations such as the National Democratic Institute for International Affairs (NDI) and the International Monetary Fund to implement training workshops aimed at improving the skills of officials tasked with managing public debt.

7.0 AN ANALYSIS OF THE DEBT SUSTAINABILITY ANALYSIS IN ZAMBIA SINCE 2022

Conducting Debt Sustainability Analysis has become a common feature in several jurisdictions as they form part of the overall function of prudent Public Finance Management Frameworks. The lack of frequent undertakings of DSA prior to the enactment of the PDMA may be part of the reason why Zambia was been unable to formulate debt management strategies and it could also be because there was little or no capacity within the MoFNP to undertake these exercises. The initial debt management strategy for Zambia was devised after undertaking a DSA in early 2017. The Debt Sustainability Analysis (DSA) provided a statistical and analytical foundation for setting quantitative benchmarks and targets for new borrowing in the medium term. The DSA performed by the IMF in 2017 indicated that Zambia's risk of debt distress had increased from medium to high, suggesting a significant likelihood of exceeding debt sustainability thresholds and a heightened risk of default on debt servicing. If Zambia had been able to conduct these analyses annually, the risks associated with debt distress could have been identified and addressed much earlier, even before the Public Debt Management Act (PDMA) was enacted, which now mandates annual DSAs to guide borrowing plans. Since the PDMA's implementation, Zambia has conducted two main DSAs: the first in 2023, prior to reaching a debt restructuring agreement, and the second after the restructuring with bilateral and Eurobond creditors under the common framework. A more recent debt sustainability analysis on a forward-looking projection was conducted just before the close of 2024

7.1 First Debt Sustainability Analysis Post the PDMA enactment.

The first Debt Sustainability Analysis (DSA) report conducted post the PDMA enactment for Zambia was released in July 2023, with the primary goal of conducting a thorough evaluation of the country's debt situation, particularly considering the efforts to restructure debt amid significant macroeconomic shifts and policy interventions.

This analysis came shortly after the approval of Zambia's IMF Extended Credit Facility (ECF) program in 2022, which highlighted the nation's commitment to implementing essential economic reforms aimed at achieving sustainable growth. To tackle its debt challenges, the Zambian government actively pursued debt restructuring under the G20 Common Framework, bolstered by the IMF-ECF program initiated in August 2022. This restructuring process involved renegotiating approximately about $13 billion in external loans in 2023, reflecting a concerted effort to stabilise the economy.

The DSA outcomes indicated that Zambia's public debt was still in a state of distress not any different from the DSA conducted in 2017 by the IMF. The analysis utilised four key external debt sustainability indicators to summarise the findings to measure debt burden level.

1. Present Value (PV) of external debt-to-GDP
2. PV of external debt-to-exports
3. External debt service-to-exports
4. External debt service-to-revenue

The thresholds are as given in the table below.

Table 1: Threshold Parameter for Debt Sustainability Tests used by IMF/World bank

	PV of External Debt in Percent of:		PV of External Debt Service in Percent of:		PV of Total Public Debt in Percent of:
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

The results revealed that all four indicators were substantially above their respective thresholds, except for the PV of external debt-to-exports, which according to projections only fell below its threshold after 2026. Furthermore, when considering domestic debt, the ratio of PV of public debt to GDP was projected to remain above its threshold for the entire forecast period. The breach of these indicators, combined with accrued debt service arrears and the ongoing restructuring effort, underscored that Zambia was indeed experiencing significant debt distress.

In addition to this analysis, it is crucial to note that the DSA also recommended continued engagement with international financial institutions and creditors to ensure a manageable debt trajectory and to facilitate necessary structural reforms. The findings emphasised the importance of maintaining fiscal discipline and enhancing revenue generation capabilities to restore sustainability and foster economic resilience in the face of ongoing challenges.

7.2 Second Debt Sustainability Analysis

The primary objective of the 2024 Debt Sustainability Analysis (DSA) was to thoroughly evaluate Zambia's debt situation in the context of the Agreements in Principle (AIP) established with bilateral creditors through the Official Creditor Committee (OCC) and Eurobond holders, while also applying similar terms to commercial creditors. The analysis also considered the estimated economic impact of a drought that had been declared a national disaster, prompting the government to reassess its fiscal policies and public investment strategies to alleviate the economic fallout.

The specific aims of the DSA included:

a) Evaluating the current levels of Zambia's public debt based on the repayment terms agreed upon in the Memorandum of Understanding (MoU) with the OCC and considering anticipated debt relief from other creditors.
b) Analysing how the drought had affected Zambia's public debt situation, particularly in relation to fiscal revenue and expenditures.
c) Providing insights to shape Zambia's future debt strategy to ensure sustainability and economic resilience.

To conduct this DSA, the revised Debt Sustainability Framework (DSF) developed by the IMF and World Bank was utilized. The analysis encompassed public and publicly guaranteed debt (PPG) as well as external debts incurred by the private sector. Furthermore, the scope of the assessment included critical components such as:

- External debt service arrears owed by the central government.
- Arrears accumulated by State-Owned Enterprises (SOEs).
- Fuel purchase arrears.
- Outstanding payments to contractors involved in externally financed projects.
- Debts related to electricity purchases from foreign sources.

This comprehensive DSA not only highlighted Zambia's current fiscal challenges but also provided a roadmap for necessary reforms and strategic adjustments. The DSA underscored the importance of sustainable debt management, emphasizing the need for enhanced domestic revenue mobilization and strategic investment in resilience-building initiatives to mitigate the impact of external shocks, such as natural disasters.

8.0 ANALYSIS OF THE 2024 DEBT SUSTAINABILITY ANALYSIS (DSA)

A more recent 2024 Debt Sustainability Analysis (DSA) conducted showed results which are framed around two distinct scenarios: one reflecting Zambia's current weak debt-carrying capacity and the other projecting an upgrade to a medium debt-carrying capacity. Each scenario considers the debt relief agreements established under the G20 Common Framework, while also applying comparable terms to both private and publicly guaranteed debts.

In the first scenario, the present value (PV) of the external debt-to-exports ratio is expected to reach its threshold in 2024 but will show a steady decline, dropping below the critical threshold of 84 percent—the level deemed to provide substantial capacity to absorb economic shocks—by 2028. The external debt service-to-revenue ratio crosses the 14 percent threshold after 2025, averaging 13.6 percent throughout the 2024-2029 period. Meanwhile, the external debt service-to-exports indicator remains comfortably below its threshold, averaging only 5.7 percent over the same period. The PV of public and publicly guaranteed (PPG) external debt-to-GDP ratio is projected to average around 46.6 percent from 2024 to 2029, only dipping below the threshold of 30 percent in 2033.

In contrast, the alternative scenario assesses Zambia's situation as having a medium debt-carrying capacity, which would trigger more favourable conditions. In this scenario, the PV of external debt-to-exports falls below the substantial capacity threshold of 108 percent by 2027. The external debt service-to-revenue ratio is projected to average 16.4 percent from 2024 to 2029, staying below the 18 percent threshold. However, it is anticipated to hover around 18 percent on average from 2026 to 2031. Simultaneously, the external debt service-to-exports indicator remains significantly below its threshold, averaging 7 percent during the 2026-2031 period. The PV of PPG external debt-to-GDP ratio is expected to average approximately 58 percent from 2024 to 2029, falling below the threshold of 40 percent only in 2031.

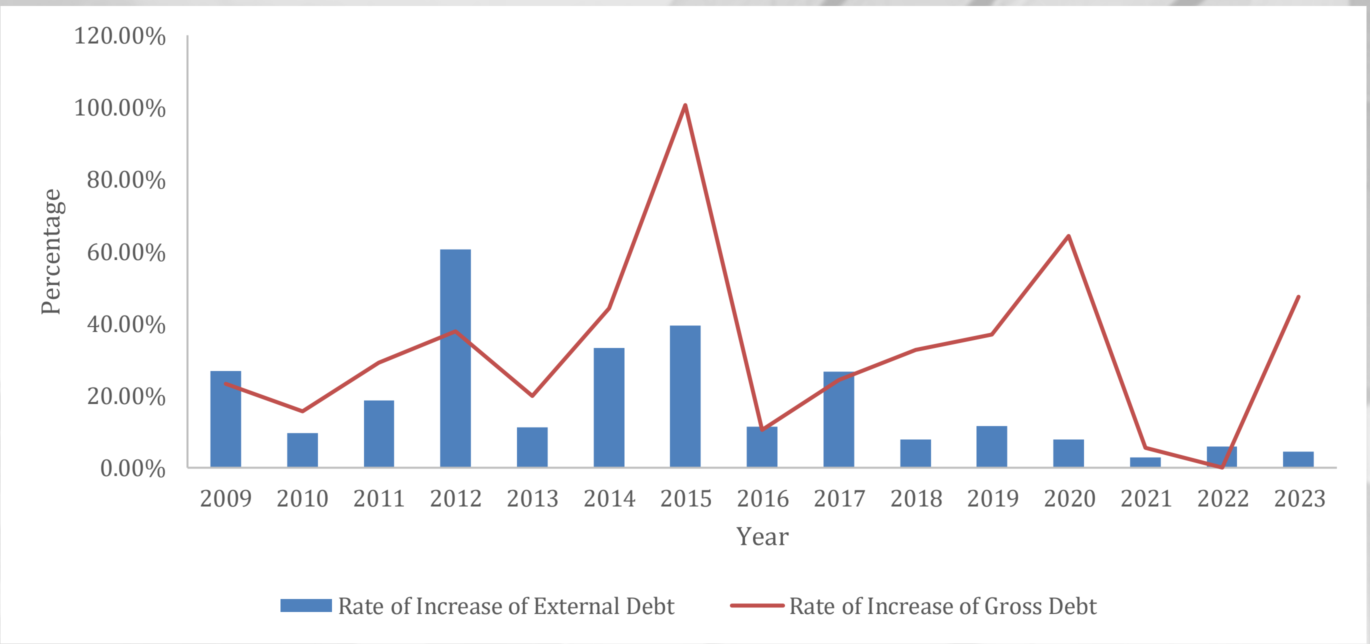
As of June 2024, Zambia's total public sector debt reached $25.3 billion by the end of the second quarter. This total comprises $15.17 billion in external debt held by the Central Government, $1.388 billion in government-guaranteed external debt from state-owned enterprises (SOEs), and $8.73 billion in domestic debt attributable to the Central

Government. Consequently, the debt-to-GDP ratio stands at a concerning 127.3Percent, following an economic growth rate of 5.4Percent in 2023.

This high debt-to-GDP ratio underscores the importance of continued economic reforms, fiscal discipline, and effective debt management strategies to enhance Zambia's economic resilience and long-term sustainability.

The figure below depicts the trends in gross and external debt. Between 2020 and 2022, the pace of gross debt accumulation slowed down, but a significant spike was observed in 2022. Conversely, the growth rate of external debt has remained relatively stable since 2020.

Figure2: Growth Rate of External Debt



8.1 Debt-Carrying Capacity Composite Indicator (CI)

The Debt-Carrying Capacity Composite Indicator (CI) is an also a crucial tool for conducting DSA which is used to assess a country's ability to manage and sustain its debt levels effectively. By analysing various economic parameters, the CI provides insights into potential vulnerabilities and the overall health of a nation's fiscal position. In Zambia's case, the CI is derived from several key components:

1. Historical Performance and Outlook for Real GDP Growth:
2. Reserves Coverage:
3. Remittance Inflows:
4. State of the Global Environment:

The scores for the CI for each country are determined as given in the figure below.

Table 2: Debt-Carrying Capacity Composite Indicator (CI)

Category	Cut-Off Values
Weak	CI < 2.69
Medium	2.69≤CI≥3.05
Strong	CI > 3.05

Source: IMF (2018)

Zambia's CI was in 2023 computed to be around **2.59** from the recent DSA report, categorizing it among countries rated as **weak performers** in terms of debt-carrying capacity. This score indicated several significant implications for Zambia:

Increased Vulnerability: A CI below 3 suggests that Zambia is at a heightened risk of debt distress. The nation's ability to meet its debt obligations is compromised, especially in the face of economic shocks or further declines in commodity prices.

Low Foreign Exchange Reserves: The precarious level of foreign exchange reserves places Zambia in a challenging position to tackle external debts and stabilises the local currency. Low reserves limit the government's options in monetary policy and can lead to inflationary pressures, further aggravating the economic situation.

Slowing Economic Growth: The decline in GDP growth exacerbates the challenges of debt sustainability. A sluggish economy means lower government revenues, making it difficult to service existing debt and invest in growth-enhancing projects. Zambia's debt-carrying capacity, as indicated by a CI of 2.59, reflected significant economic challenges stemming from low foreign exchange reserves and slowing economic growth. To improve this situation, Zambia will need to pursue strategic economic reforms aimed at enhancing foreign reserves, diversifying its economic base beyond copper dependence, and fostering a more favourable business environment to attract investment. Addressing these core issues will be vital for improving its fiscal resilience and ensuring sustainable economic development. As of May 2023, total public debt was approximately ZMW 234 billion, revealing significant economic strain. The government's commitment to transparency, as evidenced by the publication of fiscal outlooks, indicates progress in fiscal management. Suffice to mention, despite the glare findings in the 2023 analysis based on the CI, the findings in 2024, after restructuring about 90% of external debt, the Zambia's CI stands at 2.62, a much more improved outlook but still classified as weak.

9.0 COMPARATIVE ANALYSIS OF ZAMBIA'S DEBT PROFILE CLASSIFICATION WITH SELECTED COUNTRIES AS AT JUNE 2024.

The 2024 World Bank report updated in June 2024 reveals that Zambia's External Debt distress is very high and categorised as **"distress".** This includes its risk of overall debt (both external and internal). The LIC-DSF classifies countries into four debt-distress levels categories: Distress High, Moderate and low, as seen in the table below.

Comparative Analysis of Zambia's Debt Profile Classification with Selected Countries

Country	Risk of External Debt Distress	Risk of Overall Debt Distress	Publication Date
Somalia	Moderate	Moderate	May-24
South Sudan	High	High	Jun-24
St. Vincent and the Grenadines	High	High	Jul-24
Sudan	In Distress	In Distress	Jun-21
Tajikistan	High	High	Feb-24
Tanzania	Moderate	Moderate	Jun-24
Timor-Leste	Moderate	Moderate	Feb-24
Togo	Moderate	High	Sep-24
Tonga	High	High	Nov-23
Tuvalu	High	High	Jul-23
Uganda	Moderate	Moderate	Sep-24
Uzbekistan	Low	Low	Jul-24
Vanuatu	High	High	Aug-24
Zambia	In Distress	In Distress	Jun-24

Zimbabwe	In Distress	In Distress	

Source: World Bank

10.0 IMPLICATIONS OF DEBT SUSTAINABILITY ANALYSIS (DSA) IN ZAMBIA

Recent assessments from the Debt Sustainability Analysis (DSA) have revealed significant vulnerabilities in Zambia's economy, particularly in relation to fluctuations in commodity prices. For example, a 10 Percent drop in copper prices could lead to a sharp increase in the debt-to-GDP ratio, highlighting the urgent need for a comprehensive risk management framework to address these potential economic shocks. The findings in the Debt Sustainability Report 2023 confirm that Zambia's public debt is currently in a state of distress, consistent with the observations from the World Bank.

Zambia's failure to adhere to the PDMA mandate of maintaining a debt ceiling at 65 Percent of GDP has significant negative implications for its debt sustainability. The high Present Value (PV) of External Debt-to-GDP Ratio indicates an unsustainable burden of external debt relative to the country's economic output. The PV of External Debt-to-Exports Ratio remains problematic, with expected improvement only after 2026, illustrating the prolonged strain on export revenues necessary for debt servicing. High External Debt Service-to-Exports and External Debt Service-to-Revenue Ratios suggest that a substantial portion of export earnings and government revenue is allocated to meet external debt obligations, limiting fiscal flexibility and expenditures on development projects. Exceeding the debt ceilings as set in the PDMA increases Zambia's vulnerability of persistent debt distress. This situation underscores the urgent need for a comprehensive risk management framework and highlights the importance of the ongoing debt restructuring exercise, supported by the International Monetary Fund (IMF), to restore public debt sustainability.

The DSA results are summarized by several key indicators:

INDICATOR	***Weak***	***Medium***	***Strong***
PV of External Debt (% of GDP)	*30*	*40*	*55*
PV of External Debt (% of Exports)	*140*	*180*	*240*
External Debt Service (% of Exports	*10*	*15*	*21*
External Debt Service (% of Revenue)	*14*	*18*	*23*
PV of Total Public Debt (% of GDP)	*35*	*55*	*70*

Source: Reconstructed by Author; figures from IMF/MOFNP Reports

1. Present Value (PV) of External Debt-to-GDP Ratio: This metric assesses the sustainability of Zambia's external debt in relation to its economic output.

2. PV of External Debt-to-Exports Ratio: This ratio illustrates the relationship between external debt levels and export revenues, which are crucial for debt servicing capabilities.

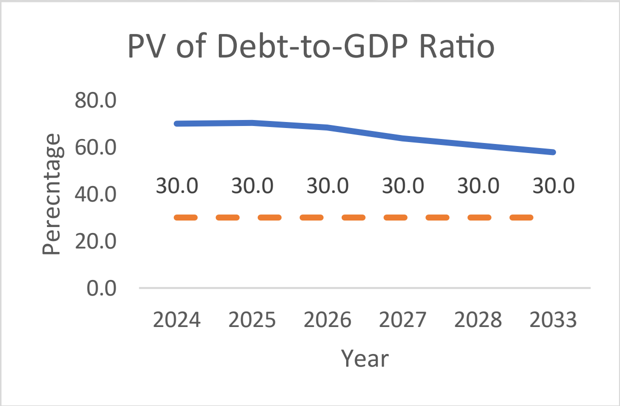
3. External Debt Service-to-Exports Ratio: This indicator measures the extent to which export earnings are allocated to meet external debt obligations.

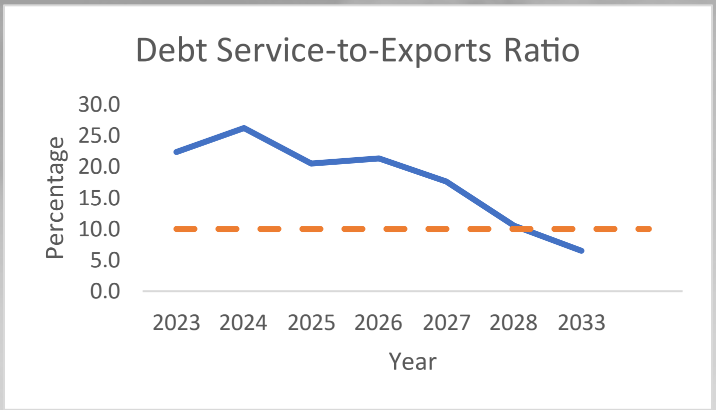
4. External Debt Service-to-Revenue Ratio: This reflects the proportion of government revenue dedicated to servicing external debt.

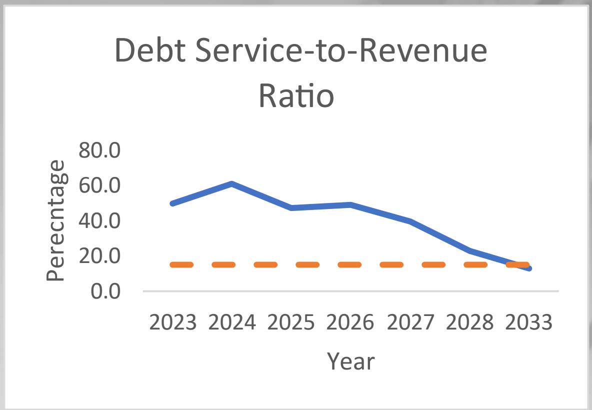
The analysis in graphs (figures) below indicates that all four indicators were significantly above their respective thresholds, except for the PV of external debt-to-exports, which was projected to fall below its threshold only after 2026. Additionally, when domestic debt was included, the ratio of PV of public debt to GDP was expected to remain above its respective threshold throughout the entire projection period, signalling ongoing concerns about sustainability. According to the IMF/World Bank LIC-DSF framework, a country's debt is deemed unsustainable if these ratios exceed 30 Percent for debt-to-GDP and 140 Percent for debt-to-exports. The Debt Sustainability Analysis (DSA) indicates that, under the baseline economic scenario, the PV of public and publicly guaranteed (PPG) external debt to GDP stays above the acceptable limit throughout the forecast period. Additionally, the PPG-to-exports ratio will go over its limit between 2023 and 2025 before falling below it afterwards.

The liquidity indicators, measured by the ratios of external debt service to exports and debt service to revenues were also projected to be above their thresholds of 10 percent and 14 percent, respectively. The debt service to exports ratio was projected above its threshold from 2023 to 2028 then drops below the threshold for a period of two years with another breach observed in 2031. The debt service to revenue ratio is projected to be above its threshold throughout the projection period.

Figure 1: Indicators of Public and Publicly Guaranteed External Debt







Source: MoFNP DSA Reports

DSA Summary for Zambia Pre- Debt restructuring (2022-2023)

Indicator	2022	2023
Debt-to-GDP Ratio	Approximately 80% of GDP, indicating high levels of public debt relative to the country's economic output.	Expected to remain above 70%, showing limited improvement and ongoing concerns about sustainability.
Debt Service-to-Revenue Ratio	Exceeded 30%, meaning a significant portion of government revenue was consumed by debt servicing.	Projected to remain above 25%, reflecting a substantial burden that restricts fiscal space for developmental priorities.
External Debt Stock	External debt accounted for about 57% of total public debt, with arrears contributing significantly to the total.	Continued high levels of external debt, with no substantial reduction anticipated due to ongoing economic pressures.

DSA summary post Debt Restructuring -2023

Indicator	Description
Debt-to-GDP Ratio	Reduced to approximately 70%, indicating a significant decrease from previous years.
Debt Service-to-Revenue Ratio	Improved to around 20%, showcasing a better balance between government revenue and debt servicing costs.
Primary Balance	Projected to maintain a primary surplus of about 1% of GDP, reflecting enhanced fiscal discipline.
External Debt Reduction	External debt levels showed a decrease, contributing positively to the overall debt sustainability assessment.

Reconstructed by Author. Data from MoFNP

The breach of these indicators coupled by the accrued debt service arrears and the ongoing debt restructuring exercise currently to be concluded with the remaining private creditors are all evidence that Zambia is in debt distress but making significant progress. The restructuring exercise aims to restore public debt sustainability and is anchored by a funded program from the International Monetary Fund (IMF).

Current Policy Interventions by the Government

To address the existing debt vulnerabilities, the following policy interventions have been agreed upon with the IMF to be carried out during the program period.

(1) Government will seek to improve the country's debt carrying capacity through strengthening

ongoing measures to grow the economy, boost foreign currency reserves, strengthen economic management and improve the fiscal governance framework.

(2) Government will strictly adhere to the fiscal consolidation commitments as envisaged in the current macroeconomic framework which includes targeting a primary budget surplus of at least 3 percent of GDP by 2025.

(3) In order to promote debt transparency, Government will increase the dissemination and publication of public debt information.

(4) Under domestic debt, focus will be on reducing the refinancing risk associated with shorter dated instruments by moving towards longer dated instruments. Additionally, to further smoothen the maturity profile, Government assessed the possibility and market appetite and introduction of a 20-year bond to avert the refinancing risk.

(5) In order to reduce the interest cost of domestic borrowing, Government will continue issuing at a higher frequency (twice a month) short-dated instruments which are currently at lower yield rates compared to longer dated instruments. Furthermore, Government will be undertaking marketing activities aimed at increasing competitiveness on the primary market.

(6) The Treasury will continue issuing government securities through competitive public auctions on the domestic market to enhance transparency and accountability, to build confidence in the domestic market.

(7) Government will continue to adhere to commitment control systems to curb the further accumulation of arrears

11.0 A CRITIQUE TO THE IMF/WORLD BANK LIC-DSF DEBT SUSTAIBILITY ASSESSMENTS

Zambia's experience with the IMF and World Bank's Debt Sustainability Assessments (DSAs) serves as a pertinent case study highlighting several critiques of the LIC-DSF frameworks even as much as they have been widely used.

a) **Optimistic Macroeconomic Projections:** The DSAs for Zambia have often relied on optimistic growth forecasts that did not materialize. For instance, previous assessments projected robust GDP growth rates fuelled by copper exports. However, the reality has been starkly different, with Zambia facing economic shocks due to fluctuating copper prices and other external factors, leading to pronounced fiscal distress. The optimistic projections failed to adequately consider the risks associated with Zambia's heavy reliance on a single commodity, contributing to escalating debt levels.

b) **Insufficient Consideration of Human Development and Climate Change Risks:** Zambia's DSA has not sufficiently addressed the implications of climate change on its economy, especially given its vulnerability to droughts affecting agriculture, which is a significant portion of its GDP. For example, the 2019 and 2023-2024 drought severely impacted maize production, highlighting the need for the DSAs to incorporate climate risks more comprehensively. Additionally, investments in health and education have often been sidelined in favour of debt repayments, undermining long-term human development and the achievement of Sustainable Development Goals (SDGs).

c) **Underestimation of Fiscal Multipliers:** The DSAs have tended to underestimate the impact of government spending on economic growth in Zambia. For example, investments in infrastructure, such as roads and energy, have the potential to significantly boost economic activity. However, the frameworks often adopt a conservative approach to public spending, failing to recognize how well-targeted fiscal interventions can stimulate growth and enhance revenues, ultimately improving debt sustainability.

The IMF and World Bank's periodic reviews of their DSA frameworks have not yet fully addressed these critiques in the context of Zambia. While they aim to enhance the relevance of their assessments, the frameworks still reflect a **one-size-fits-all approach** that may not capture the unique economic dynamics and challenges faced by Zambia. For example, Zambia's recent debt restructuring efforts, prompted by its high levels of public debt, highlight the necessity for more nuanced assessments that consider local economic conditions and the potential for growth through strategic investments. The current DSA frameworks may not adequately support the need for flexible and responsive policy adaptations that are crucial for Zambia's recovery and long-term sustainability.

The alternative Debt Sustainability Analysis (DSA) framework for Zambia should prioritize sustainable human development by ensuring that debt management strategies enhance the well-being of the population, particularly vulnerable groups. This can be achieved through inclusive engagement of diverse stakeholders such as civil society, government agencies, and international partners to create a comprehensive analysis that reflects the needs and aspirations of all Zambians, while incorporating social indicators to assess the impact of debt on essential services like health, education, and social welfare, thereby safeguarding these critical areas from the adverse effects of debt servicing

12.0 ANALYSIS OF FISCAL RISK MANAGEMENT IN ZAMBIA

The implementation of the 2019 Fiscal Risk Framework (FRF) in Zambia is aimed at enhancing the management of fiscal risks, improving transparency, and strengthening the overall governance of public finances.

12.1. Objectives of the 2019 Fiscal Risk Framework

- Identify and Assess Fiscal Risks: The FRF aims to systematically identify, assess, and mitigate fiscal risks arising from various sources, including macroeconomic factors, contingent liabilities, and revenue volatility.

- Enhance Budgetary Planning: By incorporating risk assessments into the budget planning process, the framework seeks to ensure that fiscal policies are resilient to shocks.

- Strengthen Reporting and Transparency: The FRF emphasizes the need for comprehensive reporting on fiscal risks to enhance accountability and stakeholder confidence.

12.2. Key Components of the Fiscal Risk Assessment Framework

- Macro-Fiscal Analysis: The framework involves a thorough analysis of macroeconomic indicators to anticipate potential risks. This includes reviewing GDP growth forecasts, inflation rates, and exchange rate stability.

- Contingent Liabilities Management: Identification and management of contingent liabilities, such as guarantees provided to state-owned enterprises and public-private partnerships (PPPs), are central to the FRF.

- Stress Testing: The framework includes mechanisms for stress testing fiscal scenarios to evaluate how different economic conditions could impact public finances.

12.3. Implementation Steps Taken

- Capacity Building: Training sessions and workshops have been organized for government officials to enhance their understanding of fiscal risk management and the tools available under the FRF.

- Data Collection and Analysis: The government has improved its data collection systems to better track fiscal risks and enhance the accuracy of macroeconomic forecasts.

- Integration into Budget Processes: The FRF has been integrated into Zambia's Medium-Term Expenditure Framework (MTEF), ensuring that fiscal risk assessments inform budgetary decisions.

12.4. Challenges Encountered

- Limited Institutional Capacity: While progress has been made, challenges such as insufficient capacity within the Ministry of Finance to comprehensively assess and manage risks persist.

- Data Quality and Availability: Inconsistent data quality and availability hinder accurate fiscal risk assessments, making it difficult to implement effective monitoring and control measures.

- Political Will and Continuity: Ensuring sustained political support for the FRF initiatives can be challenging, particularly amidst shifting priorities within government.

12.5. Achievements and Progress

- Increased Awareness: There is growing awareness of fiscal risks among policymakers, leading to more informed decision-making processes.

- Improved Reporting: The government has committed to more regular and detailed reporting on fiscal risks as part of its overall transparency agenda.

- Framework Adaptation: Feedback mechanisms have been established to continuously improve the framework based on experiences and changing economic conditions.

12.6. Future Directions

- Strengthening Risk Mitigation Strategies: Continued focus on developing and implementing strategies to mitigate identified fiscal risks, particularly those associated with contingent liabilities and external shocks.

- Long-term Sustainability: Emphasizing the importance of sustainable debt levels and fiscal policies that can withstand shocks in the future.

- Engagement with Stakeholders: Increasing engagement with civil society and the private sector to enhance transparency and accountability in fiscal management.

12.7 Shortcomings of the Risk Management Framework in Zambia

The formulation of the 2019 Fiscal Risk Framework represented a significant step toward better fiscal governance in Zambia. Furthermore, Zambia's fiscal risk framework has several weaknesses that hinder its effectiveness in managing public finances and ensuring long-term economic stability.

a) **Lack of Comprehensive Risk Assessment**: The fiscal risk framework often does not adequately identify or quantify the various risks facing the economy, including contingent liabilities from state-owned enterprises (SOEs) and public-private partnerships (PPPs). For instance, the financial challenges of ZESCO, the national electricity utility, pose significant fiscal risks, yet these are not always fully integrated into fiscal planning.

b) **Inadequate Monitoring and Reporting**: There is often insufficient monitoring and reporting of fiscal risks within Zambia's public finance management systems. This lack of transparency can lead to an incomplete understanding of the government's fiscal position and potential vulnerabilities. Regular, detailed reporting would help stakeholders better understand fiscal health and risks.

c) **Limited Institutional Capacity**: The capacity of institutions responsible for fiscal risk management is often weak. This includes limited human resources, inadequate training, and a lack of sophisticated analytical tools. As a result, there may be challenges in conducting thorough risk assessments and implementing effective mitigation strategies.

d) **Reliance on Commodity Revenue**: Zambia's heavy reliance on copper exports makes its fiscal framework particularly vulnerable to fluctuations in global commodity prices. This dependence can lead to significant revenue shortfalls during downturns, yet the fiscal framework does not sufficiently account for this volatility, making it difficult to plan for economic downturns.

e) **Inflexibility in Fiscal Policy**: The framework has shown inflexibility in adapting to changing economic circumstances. For example, rigid adherence to fiscal targets may prevent timely and necessary responses to economic shocks, such as the COVID-19 pandemic, where increased spending was needed to mitigate impacts on health and livelihoods.

f) **Poor Integration of Long-Term Planning**: There is often a disconnect between short-term fiscal management and long-term development goals. The framework may not effectively link fiscal policy to Zambia's broader development objectives, including the Sustainable Development Goals (SDGs). This lack of integration can hinder investments in essential sectors like education, health, and infrastructure.

g) **Insufficient Risk Mitigation Strategies**: The fiscal risk framework may not employ robust risk mitigation strategies to address identified fiscal risks. For example, there is limited use of fiscal buffers, such as stabilization funds or contingency reserves, which could help manage shocks and reduce the impact of revenue volatility.

13.0 KEY COMPONENTS OF THE 2024 FISCAL RISK STATEMENT BY THE ZAMBIAN GOVERNMENT

13.1 State-Owned Enterprises (SOEs)

The statement emphasizes the significant fiscal risks posed by SOEs, notably ZESCO. Best practices, as outlined by the International Monetary Fund (IMF) in *"Fiscal Transparency Manual" (2019)*, recommend regular financial reporting and performance evaluations for SOEs to mitigate risks and ensure accountability (IMF, 2019).

13.2 National Pension Scheme Authority (NAPSA)

Recognizing the sustainability risks associated with NAPSA, the FRS aligns with the OECD's *"Pension Fund Governance" (2016)* guidelines, which advocate for robust investment strategies and risk assessments to ensure long-term viability (OECD, 2016). This includes regular audits and transparency in financial operations.

13.3 Public-Private Partnerships (PPPs)

The analysis of PPPs in the FRS points to the need for comprehensive risk assessments before project initiation. The World Bank's *"Public-Private Partnership Reference Guide" (2017)* underscores the importance of detailed feasibility studies and risk sharing agreements to protect public finances (World Bank, 2017).

13.4 Climate-Related Risks

The incorporation of climate risks into fiscal planning reflects best practices from the *Task Force on Climate-related Financial Disclosures (TCFD)*, which emphasizes the necessity of integrating climate risk assessments into financial reporting to enhance resilience (TCFD, 2017).

13.5 Debt Sustainability

The focus on debt sustainability aligns with the IMF's *"Debt Sustainability Analysis" framework*, which recommends regular assessments of debt levels and stress testing under various scenarios to evaluate future risks (IMF, 2021).

13.6 Macroeconomic Environment

The macroeconomic outlook in the FRS reflects best practices highlighted in the *OECD Economic Outlook*, which suggests that fiscal planning should consider external economic shocks and adjust revenue forecasts accordingly (OECD, 2021).

13.7 Implications

- **Enhanced Monitoring:** The FRS suggests adopting the best practice of establishing a dedicated fiscal risk management unit, as recommended by the IMF, to monitor SOEs and PPPs continuously (IMF, 2019).

- **Strengthening Legal Frameworks:** Drawing on the *OECD Principles of Corporate Governance*, the statement advocates for robust legal frameworks governing SOEs, ensuring more transparency and accountability (OECD, 2015).

- **Climate Resilience Strategies:** The integration of climate resilience strategies into fiscal planning follows recommendations from the *UN Environment Programme Finance Initiative (UNEP FI)*, which suggests that governments should assess and disclose climate-related risks in public financial management (UNEP FI, 2020).

- **Public Engagement:** Engaging civil society aligns with the *IMF's Fiscal Transparency Code*, which emphasizes the importance of public participation and transparency in fiscal decision-making to enhance accountability (IMF, 2019)

15.0 CONCLUSION AND RECOMMENDATIONS

Zambia's Debt Sustainability Analysis, framed within the provisions of the Public Debt Management Act of 2022, reflects the government's commitment to achieving fiscal sustainability in the aftermath of a significant debt crisis. The alignment of national goals with debt management strategies, proactive assessments of fiscal risks, and diversification of funding sources illustrate a comprehensive approach to managing public debt. However, persistent challenges such as revenue constraints, political instability, and the need for transparent governance necessitate ongoing vigilance and effective management strategies. The 2024 Fiscal Risk Framework for Zambia is a progressive document that incorporates best practices in fiscal risk management. By focusing on SOEs, pension funds, climate risks, and macroeconomic factors, Zambia is taking critical steps towards safeguarding its public finances. By specifically aligning improvements in debt sustainability analysis and fiscal risk management with the current Public Debt Management Act and the Fiscal Risk Management Framework, Zambia stands to strengthen its fiscal resilience.

Implementing adherence to the requirements of the Public Finance Management Act, Zambia Procurement Act, Public Debt Management Act and other existing regulations will enhance transparency, improve institutional capacity, and better prepare the government to manage public debt effectively. The alignment with international best practices not only enhances the country's fiscal resilience but also fosters transparency and accountability in public financial management. However, the shortcomings with regards regular publication should be addressed as the country is still exposed to vulnerabilities. Zambia's case further illustrates the critical need for the IMF and World Bank to refine their DSA methodologies to better reflect the complexities of low-income economies. This includes adopting more realistic macroeconomic projections, integrating considerations of human development and climate risks, and accurately assessing fiscal multipliers. Such adaptations are essential for creating a more supportive framework that not only addresses immediate debt sustainability concerns but also fosters sustainable growth and development in Zambia and similar contexts.

Zambia's fiscal risk framework is a positive step but has several critical weaknesses that need to be addressed for effective public financial management. Zambia's debt-carrying capacity under the Composite Indicator (CI) rating is assessed as weak, unchanged from the previous DSA. The latest CI score of 2.62 remains below the cut-off for medium debt-carrying capacity of 2.69, so the assessment of debt sustainability is based on the thresholds for a weak debt-carrying capacity country.

16.0 RECOMMENDATIONS FOR ENHANCED DEBT SUSTAINABILITY ASSESSMENTS AND PRUDENT FISCAL RISK MANAGEMENT IN ZAMBIA

1	Strengthening Institutional Capacity	1. As mandated by the PDMA, establish and enhance the capacity of the Debt Management office DMO within the Ministry of Finance. This includes recruiting specialists in financial analysis, risk assessment, and public finance management 2. Efforts are underway but challenges lie in securing the necessary funding and ensuring sustainability and continuous capacitation with political support for these initiatives.
2	Integrate Social Indicators	Incorporate social indicators into the DSA framework to assess the impact of debt on essential services such as health, education, and social welfare. This will help ensure that debt servicing does not compromise these critical areas.
3	Adaptability to Local Context:	Develop a framework that is adaptable to the unique economic and social context of Zambia, allowing for flexibility in addressing specific challenges faced by the country.
4	Develop a robust CSO stakeholder engagement forum in DSA and Fiscal Risk Monitoring and Evaluation	Establish mechanisms for ongoing monitoring and evaluation of the DSA framework's and Fiscal Risk Framework's effectiveness in promoting human needs, allowing for course corrections based on empirical evidence and stakeholder feedback
5	Regular Review of Borrowing Policies	Implement ongoing training for officials on best practices in debt management, including workshops on the PDMA provisions and methods for assessing debt sustainability

		Create a comprehensive borrowing strategy in line with the PDMA that outlines short-term and medium-term borrowing plans based on projected revenues and expenditures.
		The PDMA should explicitly limit contingent liabilities from SOEs. Regular assessments of SOE financial positions should be conducted to prevent excessive borrowing that could impact public finances.
6	Transparency and Reporting Enhancements	In compliance with Section 41 and 42 3 of the PDMA, ensure that quarterly debt reports are submitted to Parliament with detailed information on debt composition, risks, and sustainability assessments.
		Improve public access to debt information by publishing real-time data on government borrowing, debt service obligations, and risk assessments on the Ministry of Finance's website and other means of publication with strict adherence to the Access to Information (ATI) Act. .
7	Comprehensive Risk Assessment Procedures	Incorporate macroeconomic scenarios into the fiscal risk assessment process as outlined in the Fiscal Risk Management Framework. This includes developing stress-testing methodologies that simulate the impact of economic shocks on debt levels with a tweak towards social sector impact consideration of risks.
		Establish a systematic approach to monitor SOE financial health and their potential impact on fiscal risks. This should include regular financial and debt audits and performance evaluations.
8	Risk Mitigation Strategies	Annually review and update the Debt Management Strategy to reflect emerging risks, ensuring alignment with the broader Fiscal Risk Management Framework. The government has made strides in integrating the Fiscal Risk Framework (FRF) into the budget process, but the lack of comprehensive risk assessments for SOEs and Public-Private Partnerships (PPPs) remains a challenge.
9	Contingency Planning:	Develop contingency plans for potential fiscal shocks, such as commodity price drops or natural disasters, which can be integrated into the national budget process.
10	Stakeholder Engagement in Risk Management	Facilitate dialogues between the government, civil society, and international partners to discuss fiscal risks and strategies to mitigate them, promoting a shared understanding of the fiscal landscape

		Enhance mechanisms for public participation in the budgeting process, allowing citizens to engage in discussions about debt management and fiscal risk priorities. Despite some notable progress made, further efforts are needed to ensure that these frameworks are effectively implemented and enforced.
11	Monitoring and Evaluation Framework	Create KPIs to monitor the effectiveness of debt management practices and risk mitigation strategies. This can include metrics on debt service ratios, the proportion of concessional loans, and the level of contingent liabilities from SOEs.
		Commit to producing annual fiscal risk assessment reports, analysing the main risks to the budget and providing recommendations for mitigating those risks in accordance with the Fiscal Risk Management Framework.
12	Strengthening Implementation and Enforcement	The government should ensure robust implementation and enforcement of the ATI Act by establishing clear guidelines and procedures for public institutions to follow. This includes regular training for public officials on the importance of transparency and the legal obligations under the ATI Act. Additionally, there should be a dedicated oversight body to monitor compliance and address any violations.
13	Advocacy and Policy Influence	CSOs should leverage the findings of the DSA and the Fiscal Risk Management Framework to influence policy decisions. By presenting well-researched evidence, they can advocate for policies that promote fiscal responsibility and sustainable debt management.
14	Capacity Building	CSOs should focus on enhancing their capacity to engage in evidence-based dialogue with policymakers. This includes training in debt sustainability analyses, fiscal risk management, and public finance management to effectively advocate for sound economic policies.
15	Engagement with State-Owned Enterprises (SOEs)	CSOs should engage with SOEs to ensure they adhere to the principles of fiscal responsibility and transparency. This includes monitoring their debt levels and advocating for efficient management practices to reduce fiscal risks.

13	Enhance Public Awareness and Engagement	Conducting public awareness campaigns to educate citizens about their rights under the ATI Act is crucial. These campaigns should focus on informing the public about how to request information, the types of information available, and the benefits of accessing government data. Engaging with civil society organisations and the media can also help amplify these efforts and ensure broader reach.

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18.0 ANNEXES

ANNEX 1: Data Collection Tool

Section 1. General Information

1. Name (Optional):
2. **Affiliation/Organization:
3. **Position/Role:

Section 2: Understanding of Debt Sustainability

4. How do you define debt sustainability in the context of Zambia?
  - [] Sustainable
  - [] Unsustainable
  - [] Not Sure

5.What key indicators do you believe are most important for assessing Zambia's debt sustainability? (Select all that apply)
  - [ ] Debt-to-GDP ratio
  - [ ] Fiscal deficits
  - [ ] External debt levels
  - [ ] Growth rates
  - [ ] Other (please specify)

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Section 3: Assessment of Policy Frameworks

6. How effective do you believe the Zambian government's Debt Sustainability Strategy is?
  - [ ] Very effective
  - [ ] Effective
  - [ ] Somewhat effective
  - [ ] Not effective

7. What challenges do you think the government faces in implementing the Debt Sustainability Strategy? (Select all that apply)
  - [ ] Economic instability
  - [ ] Policy inconsistency
  - [ ] Lack of political will
  - [ ] External economic shocks
  - [ ] Other (please specify)

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Section 4: Fiscal Risk Management

8. How would you rate the effectiveness of the Fiscal Risk Management Framework in Zambia?
- [ ] Excellent
- [ ] Good
- [ ] Fair
- [ ] Poor

9. What specific measures should be prioritized to strengthen fiscal risk management in Zambia? (Select all that apply)
- [ ] Improved data collection
- [ ] Enhanced transparency and accountability
- [ ] Better budget planning
- [ ] Strengthening legal frameworks
- [ ] Other (please specify)

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………………………………………………………………………………………………

Section 5: Commitment to Debt Strategy

10.Do you believe the Zambian government is committed to actualizing its debt sustainability strategy?
- [ ] Yes
- [ ] No
- [ ] Unsure

11.What additional steps should the government take to reaffirm its commitment to debt sustainability? (Open-ended)

………………………………………………………………………………………………

Section 6: Final Thoughts

12.Any other comments or suggestions regarding Zambia’s debt sustainability and fiscal management?

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ANNEX 2: SUMMARY OF PUBLIC DEBT MANAGEMENT ACT (PDMA) OF 2022

Section of the PDMA	Content	Relevance
Section 1	**Short Title and Commencement**	Provides the title of the Act and its commencement date
Section 2	**Interpretations**	Defines key terms used in the Act, such as "public debt," "debt sustainability," and others
Section 3	**Objectives of the Act**	Outlines the main objectives of the PDMA, including promoting fiscal sustainability and managing public debt effectively
Section 4	**Debt Management Strategy**	Mandates the formulation of a debt management strategy that considers debt sustainability and outlines risk management measures.
Section 5	**Responsibilities of the Ministry of Finance via the Establishment of the Debt Management Office (DMO)**	Specifies the responsibilities of the Ministry of Finance in managing public debt and ensuring its sustainability.
Section 6	**Functions of the DMO and Reporting Requirements**	Details the requirements for regular reporting on public debt and the need for annual debt sustainability assessments (DSAs).
Section 7	**Appointment of Officers to DMO**	Establishes the framework for identifying and mitigating risks associated with public debt, including the conduct of stress tests.

Section 8	**Borrowing Guidelines**	Provides guidelines for borrowing, emphasizing that new debt should be assessed for sustainability
Section 9	**Contingent Liabilities and review of the ABP**	Mandates the registration and assessment of contingent liabilities that could impact debt sustainability.
Section 10	**Compliance with International Standards**	States that debt management practices should align with international best practices by providing biannual update on the implementation of the ABP to National Assembly.
Section 11	**Coordination of Fiscal Policy**	Emphasizes the need for coordination between debt management and broader fiscal policies to ensure sustainability.
Section 12	**Implementation and Review**	Allows for ongoing assessment and adaptation of practices to ensure sustained adherence to principles of debt sustainability

GET IN TOUCH

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