



THE ROLE OF PARLIAMENT IN PUBLIC DEBT MANAGEMENT IN ZAMBIA

PARLIAMENTARY BUDGET OFFICE



1.0 INTRODUCTION

The role of the National Assembly in public debt management in Zambia should be understood within the broader context of Public Finance Management (PFM). Article 198 of the Constitution of Zambia (Amendment) Act No. 2 of 2016 provides for various principles of PFM, including the promotion of sustainable public borrowing to ensure inter-generational equity.

The National Assembly of Zambia draws its mandate from the Constitution. One of its functions, as stated in Article 63(2)(d), is to oversee the performance of Executive functions, which includes, among others, approving public debt before it is contracted.

The enactment of the Public Debt Management Act, 2022 aligns with Article 207(2)(a) of the Constitution which mandates the enactment of legislation that shall provide for the category, nature, and other terms and conditions of a loan, grant, or guarantee, that will require the approval by the National Assembly before the loan, grant or guarantee is executed..

2.0 PUBLIC DEBT

The Constitution provides a comprehensive definition of public debt, which encompasses not only the principal amount borrowed but also the interest on that debt, sinking fund payments related to the debt, and any costs, charges, and expenses associated with its management.

Additionally, the Public Debt Management Act, 2022 specifies that public debt refers to a financial liability created as a result of borrowing by Government, a local authority, parastatal, State owned enterprise, or other body appointed by the Government or established by or under, any written law, but excludes a professional association or body. This provision amplifies the definition in the Public Finance Management Act, 2018, which defines public debt as financial, material, and other resources, including guarantees, acquired or borrowed by a public body in the best interest of the Republic.

3.0 OVERSIGHT ROLE OF PARLIAMENT IN PUBLIC DEBT MANAGEMENT

Public debt is a key component of the Budget. The Government manages its outstanding debt obligations, including the issuance of new debt and the repayment of existing debt through the Budget. As a result, Parliament, with its power to approve the Budget (power of the purse) and its ex-post oversight function (through the Public Accounts Committee and others), plays an essential role in the Budget process, ultimately ensuring Budget credibility and effective public debt management. Several key pieces of legislation comprehensively define the role of the National Assembly in the Budget process, and specifically public debt management. They are outlined below.

3.1 The Public Debt Management Act

The Public Debt Management Act, 2022 governs public debt management in Zambia. Its enactment is in accordance with Article 207(2)(a) of the Constitution which provides for the enactment of legislation which shall outline the category, nature, and other terms and conditions of loans, grants, or guarantees requiring approval from the National Assembly prior to their execution.

Under this Act, the Executive is required to present the Annual Borrowing Plan to the National Assembly for approval. This is a schedule of anticipated borrowings for the Government and public bodies for a financial year. Additionally, the Executive must submit the Annual Public Debt, Guarantees, and Grants Execution Report to the National Assembly, along with an update on the implementation of the Annual Borrowing Plan. To ensure transparency, the Act also mandates the Executive to publish the Debt Sustainability Analysis, Medium-Term Debt Strategy, and the Debt Statistical Bulletin for public access.

However, it is important to note that while the Act mandates Cabinet approval of the Medium-Term Debt Strategy, it does not specify the requirement for its presentation before the National Assembly.



Below is a table presenting the various publications on public debt management as provided for in the Act.

Publication	Purpose	Date
Annual Borrowing Plan Section 8(4)	<ul style="list-style-type: none"> A schedule of anticipated borrowings for the Government and public bodies for a financial year Tabled for approval by the National Assembly 	Not later than ninety days before the commencement of the next financial year
Annual Public Debt, Guarantees and Grants Execution Report Section 42(1)	<ul style="list-style-type: none"> A report assessing the effectiveness of the Debt Management Strategy in achieving debt management objectives, the outstanding lending, and the borrowing operations of the government along with the debt service paid during the financial year Submitted to the National Assembly for information purposes only 	Within three months after the end of each financial year
Annual Public Debt, Guarantees and Grants Execution Report Section 42(2)	<ul style="list-style-type: none"> Published to the public for information purposes only 	Within thirty days of submission of the report to the National Assembly
Debt Statistical Bulletin Section 41(1)	<ul style="list-style-type: none"> A summary of the country's contracted debt with a creditor-by-creditor breakdown and a summary of the country's debt position on a quarterly basis Published to the public for information purposes only 	Once every quarter
Debt Sustainability Analysis Section 40(2)	<ul style="list-style-type: none"> An assessment of the way the Republic's current level of public debt and prospective borrowing affects the Republic's present and future ability to meet debt service obligations Published to the public for information purposes only 	By the end of the first quarter of the following year
Medium Term Debt Strategy Section 4(4)	<ul style="list-style-type: none"> A strategic plan designed to operationalise high level objectives for debt management, considering the cost and risk associated with the public debt portfolio and the financing of the Government's borrowing requirements over the medium term Published to the public for information purposes only 	By the second Friday of July in each year
Update on the implementation of the Annual Borrowing Plan Section 10	<ul style="list-style-type: none"> Submitted to the National Assembly for information purposes only 	Bi-annual basis

Source: *Public Debt Management Act, 2022*

3.2 The Public Finance Management Act

The Public Finance Management Act, 2018 serves as the primary legislation governing PFM in Zambia. It establishes an institutional regulatory framework for the effective management of public funds, enhancing accountability, oversight, management, and control of public finances, including external audit.

4.0 PROGRESS IN PARLIAMENTARY OVERSIGHT OF PUBLIC DEBT

Since the coming into effect of the Public Debt Management Act, 2022 there has been an improvement in the oversight of public debt by the National Assembly. Notably, Parliament approved the 2023 Annual Borrowing Plan, the first of its kind, which comprehensively outlined all the proposed borrowings for the 2023 fiscal year.

5.0 AUDITING THE STOCK OF PUBLIC DEBT

The Constitution, the Public Debt Management Act, and the Public Finance Management Act do not expressly provide for the audit of the total public debt stock by the Auditor-General. Currently, the Auditor-General's scope is limited to auditing interest and principal payments made by the Government. However, it is considered best practice for the Auditor-General to conduct an audit and express an opinion on the total public debt stock. According to the handbook for Supreme Audit Institutions – Audit of Public Debt Management, published by INTOSAI Development Initiative (IDI), an organ of the International Organization of Supreme Audit Institutions (INTOSAI), a financial audit of debt reporting could be undertaken with the following objectives: to determine whether public debt information is presented completely and accurately in Government financial statements and reports; and to determine whether public debt information in the financial statements has been accurately and adequately disclosed in a fair manner, in accordance with prevailing accounting standards.



6.0 CHALLENGES IN PUBLIC DEBT OVERSIGHT

Despite the progress made by the National Assembly in public debt oversight over the past two years, there have been some challenges encountered during the process. The notable challenges are highlighted below.

6.1 Approving Individual Loans within the Annual Borrowing Plan

The Public Debt Management Act, 2022 mandates the National Assembly to approve the Annual Borrowing Plan for the next financial year. However, Section 8(7) of the Act, states that approval of the annual borrowing plan by the National Assembly shall constitute an approval of the loans contained in the annual borrowing plan in that financial year. This entails that the National Assembly can only approve the aggregate Annual Borrowing Plan.

Consequently, the National Assembly is unable to disapprove individual loans that do not meet their expectations i.e., prudent degrees of risk and value. If certain loans are rejected by the National Assembly, the Minister of Finance would need to present a new borrowing plan.

This implies that it may not only be the approval of the debt by the National Assembly that is crucial, but also the manner in which it is approved. Under the previous legislation, the Loans and Guarantees (Authorisation) Act, 1969, and the General Loan and Stock Act, 1931, the National Assembly played a critical role in approving the amount of borrowing for a single year and for multiple years. Nevertheless, the country still accumulated unsustainable debt.

In Mauritania, the usual practice is that each loan is reviewed by the responsible committee before it is brought to the plenary for ratification together with other loans¹. This increases the degree of ex ante parliamentary involvement in the approval of public debt. Other options include specific approvals for certain transactions only (i.e., above a specified threshold or for external borrowing only).

6.2 Debt Ceiling

Section 11(2) of the Public Debt Management Act, 2022 limits the total public debt stock at any given time to sixty-five percent of the gross domestic product (GDP)². Additionally, the debt service cost due and payable during a financial year for outstanding loans raised outside Zambia is limited to a maximum of twenty percent of the average annual recurrent revenue³. Recurrent revenue comprises regular income generated by the Government, such as income tax and value-added tax (VAT), as well as non-tax revenue sources like fees and fines. Furthermore, Section 34(1) of the Act establishes a ceiling on the total contingent liability⁴ for guarantees issued under the Act, which should not exceed ten percent of GDP.

However, the Act stipulates that these ceilings will only come into effect after a five-year period from the commencement of the Act, specifically in 2027. The rationale behind this was to allow the Government sufficient time to bring the current debt stock within the prescribed thresholds. Therefore, during this intervening period, the Legislature cannot hold the Executive accountable if the contracting of debt is seen to increase the total debt stock and contingent liabilities, moving them further away from the prescribed ceilings.

1. PARLOVER2013EN.pdf (ipu.org)

2. GDP at current market prices computed for the immediate past financial year.

3. Computed based on the three preceding financial years.

4. The potential liability assumed by the Republic that is contingent on the financial obligation of a beneficiary and becomes Government debt when the beneficiary responsible for the payment of the financial obligation fails to make payment when due.

Notwithstanding the limitations on public debt oversight due to the set limits, other considerations come into play when approving the Annual Borrowing Plan or a guarantee. For example:

- a) assessing the Executive's compliance with other provisions of the Public Debt Management Act regarding the publication of the Debt Sustainability Analysis Report, Medium-Term Debt Strategy, debt bulletins, and other reports;
- b) ensuring that every project to be funded through debt has been appraised and aligns with the national development plan; and
- c) drawing lessons from the ongoing protracted debt relief negotiations, such as the challenge of reaching an agreement among the involved creditors due to diverse sources of loans.



7.0 CONCLUSION

Effective management of public debt is crucial for a country's fiscal sustainability. The Constitution and several key pieces of legislation comprehensively define the role of public debt management. In Zambia, the Constitution, the Public Debt Management Act, and the Public Finance Management Act provide a legal framework for overseeing public debt management. Parliament's oversight function plays a vital role in ensuring effective management of public debt. Undeniably, the current legal framework has strengthened the role of Parliament in public debt management. However, it may be necessary to periodically review its effectiveness. Additionally, more efforts are required to ensure compliance with the legal framework and to prevent economic mismanagement and debt distress.



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