



NATIONAL ASSEMBLY OF ZAMBIA

REPORT

OF THE

PLANNING AND BUDGETING COMMITTEE

**ON THE CONSIDERATION OF THE ANNUAL BORROWING PLAN FOR THE
FINANCIAL YEAR 1ST JANUARY TO 31ST DECEMBER, 2023,**

FOR

THE SECOND SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

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REPORT OF THE PLANNING AND BUDGETING COMMITTEE ON THE CONSIDERATION OF THE ANNUAL BORROWING PLAN FOR THE FINANCIAL YEAR 1ST JANUARY TO 31ST DECEMBER, 2023, FOR THE SECOND SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

1.0 Composition of the Committee:

The Committee consisted of Mr Fred C Chaatila, MP (Chairperson); Ms Jean C Chisenga, MP (Vice-Chairperson); Mr Machila Jamba, MP; Mr Gystave Chonde, MP; Amb. Robert K Kalimi, MP; Mr Koonwa Simunji, MP; Mr Brian Kambita, MP; Mr Davison Mung'andu, MP; Mr Peter Phiri, MP and Mr Lloyd Lubozha, MP.

The Honourable Madam Speaker
National Assembly
Parliament Buildings
LUSAKA

2.0 Functions of the Committee

The functions of the Committee are as stipulated in Standing Order No. 195 of the National Assembly of Zambia Standing Orders, 2021.

3.0 Meetings of the Committee

The Committee held five meetings to consider the Annual Borrowing Plan in accordance with its function in Standing Order 195 (7). The Committee requested for detailed written memoranda on the Annual Borrowing Plan from various stakeholders. The list of witnesses who appeared and made submissions before the Committee is at Appendix 4.

4.0 Background on Zambia's Debt and the Annual Borrowing Plan

Zambia had been grappling with a debt crisis from as far back as the mid-1980s to mid-2000s. This consequently resulted in debt relief under the Highly Indebted Poor Countries initiative (HIPC) and Multilateral Debt Relief Initiative MDRI in 2005. However, Zambia's debt-to-Gross Domestic Product (GDP) ratio increased from about 22 per cent in 2011 to 56 per cent in 2018. Pundits argued that there had been no systematic and concrete ways of acquiring and servicing the debt. In this regard, there was a high risk of Zambia sliding back into the debt trap due to lack of robust and adequate legal, administrative and institutional checks and balances in the decision-making processes. Furthermore, the legal framework that was in place at the time did not involve the National Assembly in approving the contraction of foreign loans. This was a recipe for economic and financial mismanagement.

In light of the foregoing, the Government resolved to restore public debt to sustainable levels, in order to mitigate its impacts and ensure that mechanisms were

put in place to avoid a recurrence of a debt crisis in future. In 2022, the National Assembly of Zambia enacted the *Public Debt Management Act No 15 of 2022*, to strengthen the legal framework for public debt and management as well as consolidate the contraction and management of grants and issuance and management of sovereign guarantees.

In line with the provisions of the *Public Debt Management Act*, the Minister in charge of finance is required to submit to the National Assembly the Annual Borrowing Plan (ABP), not later than ninety (90) days before the commencement of the next financial year. The ABP is a document that outlines anticipated borrowings by Government and public bodies for a financial year.

Once the ABP is submitted to the National Assembly, it is expected to be approved by the Assembly, which essentially gives powers to the National Assembly to approve loans. Approval of the ABP by the National Assembly is key for ensuring debt sustainability.

In view of the foregoing, and in line with the provisions of the law, the Minister of Finance and National Planning, when presenting the National Budget for 2023 also submitted the ABP. Accordingly, the ABP was referred to the Planning and Budgeting Committee for consideration.

4.1 Objectives of the Annual Borrowing Plan

The Committee was informed that the main objective of the 2023 ABP was to seek authority from the National Assembly to contract a total amount of K 15.6 billion as net domestic financing and a total of US\$ 1.4 billion as new external loans to finance the 2023 National Budget.

4.2 Justification for the Proposed Borrowing by the Government

The Committee was informed that as at June, 2022, the Government's total debt stock stood at US \$25.2 billion, out of which, US \$11.95 billion was domestic debt while US \$13.25 billion was external debt. In this regard, due to debt obligations and challenges to mobilise finances from the local market, the Government had to acquire debt so as to finance the budget deficit. The Committee was informed that to close the gap, an analysis was undertaken to establish how much the Government could reasonably raise from already existing facilities as follows:

- i. the Government would draw a maximum of US\$ 420 million which would be tied to specific projects and programmes;
- ii. the Government would utilise US\$ 450 million from the Extended Credit Facility that was obtained from the International Monetary Fund; and
- iii. the Government would draw down a total of US\$ 579.3 million from the 2021 Special Drawing Rights General Allocation.

The Committee was further informed that the ABP was consistent with the macroeconomic framework that was used to conduct the Debt Sustainability Analysis (DSA) which assumed that the Government would between 2022 and 2025, only borrow on concessional terms for all external loans. The Committee was also informed that in addition to the DSA, the Government should have provided the Medium-Term Debt Strategy (MTDS). However, the Government was unable to submit the MTDS due to the reasons outlined below.

- i. The MTDS which was to be informed by the DSA was only approved by the 30th August, 2022. This was because the DSA had to inform the debt restructuring parameters and therefore, other stakeholders had to be involved. Among the stakeholders were the International Monetary Fund (IMF), who were key to the debt restructuring exercise; the World Bank and Zambia's financial advisors.
- ii. The Debt restructuring, which had not been completed with official creditors, had to feed into the formulation of the MTDS.

The Committee was also informed that the ABP had complied with all the requirements of the *Public Debt Management Act No.15 of 2022* as stipulated in section 8(3).

4.2.1 Programmes for which the Proposed Debt would be Used

The Committee was informed that the programmes for which the proposed debt would be used included but were not limited to the following:

- i. general budget support;
- ii. development of the farm blocks and value chain addition;
- iii. supporting decentralisation that comprised capital grants to town councils;
- iv. social protection programmes;
- v. tourism industry development;
- vi. expansion of power transmission lines;
- vii. supporting emerging farmers productivity to promote food security;
- viii. climate change mitigation adaptation; and
- ix. provision of water supply and sanitation.

5.0 Concerns by Stakeholders

All the stakeholders who appeared before the Committee supported the ABP and stated that the ABP would guide the Government borrowing from both domestic and external sources to finance the 2023 Budget and that the release of the ABP was in line with the *Public Debt Management Act No.15 of 2022*. However, they raised concerns as set out below.

5.1 State Owned Enterprises (SOEs) Borrowing not Included in the ABP

Stakeholders expressed concern that the borrowing requirements for the public bodies, which had accounted for the Government's external debt stock for guaranteed and non-guaranteed external debt amounting to US\$ 15 billion and US\$ 113.69 million, were not submitted together with the ABP in line with the provisions of the *Public Debt Management Act No.15 of 2022*.

5.2 Annual Borrowing Plan includes Social Sectors

While appreciating the importance of the social sectors in the economy, stakeholders expressed concern that many of the areas to be financed in the ABP included social sectors whose benefits would not accrue in the short to medium term and would not add immediate value in terms of growth, exports and repayment of the loans. Stakeholders were of the view that the Government should have restricted borrowing to finance productive investments, whose returns would be used to finance the social sectors.

5.3 Crowding out of the Private Sector

Stakeholders expressed concern that while the Government had planned to raise K15.6 billion from the local market through issuance of Government securities, and that it would limit its borrowing to not more than 3 per cent of Gross Domestic Product, the stakeholders were of the view that Government debt would crowd-out bank credit to the private sector which would negatively impact economic growth.

5.4 Under Subscription for the Bonds and Treasury bills

While appreciating that the Government, through the Central Bank as the fiscal agent of the Government, would intensify efforts to sensitise the citizenry to invest in bonds and treasury bills, stakeholders were of the view that under-subscriptions in Government bonds and Treasury bills due to unpredictability of investors' demand would limit the amount of finances the Government would raise.

5.5 Delayed Finalisation of External Financing

Stakeholders expressed concern that the process of finalising loans, and receiving funds from financiers often delayed, and consequently could negatively affect the implementation of the programmes in 2023.

5.6 Long Project Maturity Period

Stakeholders expressed concern that certain debt funded projects took significant periods of time before giving a return on the investment. Stakeholders were of the view that this would exert pressure on the Government, to start liquidating the debt even before the projects would start yielding stable returns.

6.0 Committee's Observations and Recommendations

After carefully reviewing the submissions from the various stakeholders, the Committee wishes to state from the outset that it supports the approval of the Annual Borrowing Plan which was produced in line with the provisions of the *Public Debt Management Act No.15 of 2022*. This is because the Plan will strengthen debt management and enhance transparency and accountability.

However, following the interactions with stakeholders, the Committee makes its observations and recommendations as outlined below.

- i. The Committee observes with concern that the Medium-Term Debt Strategy on which the ABP is supposed to be anchored, was not submitted contrary to the *Public Debt Management Act*.

In light of the above, the Committee recommends that the *Public Management Act* should be reviewed to provide a transition window within which the Government can publish the (Medium-Term Debt Strategy), before presenting the ABP to Parliament.

- ii. The Committee observes that the Annual Borrowing Plan provides two financing strategies which are domestic and external borrowing to finance the budget deficit of K54 billion. The Committee observes with concern that the ABP does not provide alternative solutions on how it will finance the deficit in an event that the external borrowing does not timely materialise and the Government seems to fail to attract sufficient investors.

In light of this, the Committee recommends that a further analysis of the risks associated with the two financing strategies should be undertaken, so as to develop appropriate strategies to mitigate these risks. In an event that it is found that the risks are unmanageable, alternative ways of financing the budget deficit should be put in place.

- iii. The Committee observes that there is a possibility that Government domestic borrowing may crowd-out bank credit to the private sector, which may negatively impact economic growth. The Committee is cognisant of the fact that Government borrowing can affect private investment by crowding out private sector credit directly or indirectly through rising interest rates. While noting that the Government has taken measures to reduce crowding-out the private sector, this is still a visible risk mainly due to limited pool of funds in the financial markets.

In light of this, the Committee recommends that the Government should scale down the domestic debt contraction as this will in turn allow for more money for private sector investments and also push down the lending rates.

- iv. The Committee observes that the ABP has included social sectors which will be financed using the domestic and external borrowing. The Committee observes that considering that Zambia has a huge debt stock which it is unable to service, the Government should prioritise funding economic sectors, which will in turn generate income in the short term to finance the social sectors.

In light of the above, the Committee recommends that the Government should reduce funding to social sectors in the ABP and focus more on the economic and productive sectors.

- v. The Committee observes with concern that while the Government is seeking to finance the budget deficit, the Government has proposed a number of concessions in the mining sector without corresponding benefits which will accrue to the Country in the short term, so as to avert borrowing to finance the budget deficit.

The Committee recommends that as opposed to focusing more on the expenditure part, the Government should ramp up activities aimed at growing the domestic revenue base. This should include stringent measures that reduce financial illicit flows and enforce strategies of collecting taxes from the informal sector.

- vi. The Committee observes that the ABP provides for acquisition of only concessional loans. While appreciating that concessional loans have longer grace periods and longer payments terms, the Committee observes that without a proper debt repayment plan and viable economic growth, the debt will primarily benefit the current generation at the expense of the future generations.

In view of the foregoing, the Committee recommends that the Government should strictly adhere to the commitments agreed upon with the creditors, uphold prudence and invest the funds, in viable projects that can generate sufficient revenue to service the loan facility in the foreseeable future.

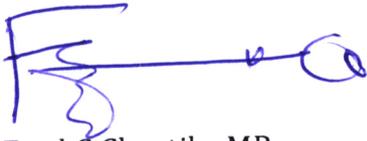
- vii. The Committee observes with concern that Government intends to draw down a total of US \$ 579.3 million from the 2021 special drawing rights general allocation out of which 45.5 per cent will be used to finance consumption.

The Committee recommends that resources from the special drawing rights should be utilised for private sector growth as a stimulus package to create growth within the economy and also generate revenue for the Government.

7.0 Conclusion

The Committee commends the Government for adhering to the provisions of the *Public Debt Management Act No.15 of 2022* which requires that the Budget be presented together with the Annual Borrowing Plan for approval by the National Assembly. This adherence is, therefore, consistent with commitments the Government made under the Extended Credit Facility and is in line with the debt sustainability analysis and the objectives of the Eighth National Development Plan. The Committee is confident that approval of the ABP by the National Assembly is key for ensuring debt sustainability and ensuring that the country does not fall back into debt distress through unsustainable borrowing.

The Committee wishes to pay tribute to all stakeholders who appeared before it and tendered both oral and written submissions. It also wishes to thank you Madam Speaker, and the Office of the Clerk of the National Assembly for the guidance and support rendered during its deliberations.

A handwritten signature in blue ink, appearing to read 'Fred C Chaatila', with a stylized flourish at the end.

Mr Fred C Chaatila, MP
CHAIRPERSON

October, 2022
LUSAKA

Appendix 1 Loans to be Contracted in 2023

Description	Loan Amount (Face Value)	Amount to be disbursed in 2023	Purpose of the Borrowing
1.Net Domestic Financing [ZMW]	15,575,869,900	15,575,869,900	Financing 2023 General Budget
2.External Financing [US\$]			
	1,403,288,600	770,144,300	
Zambia Growth Pole Project	300,000,000	150,000,000	Development of farm blocks & value chain addition
Zambia Devolution Support Project	210,000,000	105,000,000	Support decentralisation Including Capital grants to town councils
Scaling Upshocks responsive Protection Project	155,000,000	90,000,000	Social protection programme
Development Policy Operation (DPO1)- Budget Support	275,000,000	275,000,000	General budget support
Development Policy Operation (DPO2)- Budget Support	75,000,000	75,000,000	General budget support
Tourism Development Project	100,000,000	15,000,000	Tourism industry development
Zambia Tanzania Interconnector	240,000,000	36,000,000	Expansion of power Transmission lines
Zambia Emergency Food Production Facility (AEFPF)	14,873,000	7,436,500	Support emerging farmers productivity to promote food security

Description	Loan Amount (Face Value)	Amount to be disbursed in 2023	Purpose of The Borrowing
Programme for Integrated Development and Climate Change in the Zambezi Basin (PIDACC)	9,785,600	4,892,800	Climate change mitigation and adaptation
Farm Block Transformation Program	13,900,000	6,950,000	Development of farm blocks and Value addition
Kabwe Water Supply Emergency Works	9,730,000	4,865,000	Provision of water supply and sanitation

Appendix 2 Proposed New Concessional Loans to be Contracted in 2023

Description	Loan Amount (Face Value)	Amount to be Disbursed in 2023	Purpose for Borrowing
Zambia Growth Pole Project	300,000,000	150,000,000	Development of farm blocks & value chain addition
Zambia Devolution Support project	210,000,000	105,000,000	Support decentralisation including capital grants to town councils
Scaling Up shocks responsive Social Protection Project	155,000,000	90,000,000	Social protection programme
Development Policy Operation (DPO 1) - Budget Support	275,000,000	275,000,000	General budget support
Development Policy Operation (DPO 2) - Budget Support	75,000,000	75,000,000	General budget support
Tourism Development project	100,000,000	15,000,000	Tourism industry Development
Zambia Tanzania Interconnector	240,000,000	36,000,000	Expansion of power transmission lines
Zambia Emergency Food Production Facility (AEFPF)	14,873,000	7,436,500	Support emerging farmers productivity to promote food security
Programme for Integrated Development and Climate Change in the Zambezi Basin (PIDACC)	9,785,600	4,892,800	Climate change mitigation and adaptation
Farm Block Transformation Program	13,900,000	6,950,000	Development of farm blocks and value addition
Kabwe Water Supply Emergency Works	9,730,000	4,865,000	Provision of water supply and sanitation
A. Sub-Total	1,403,288,600	770,144,300	

Appendix 3 List of National Assembly Staff

Mr Charles Haambote, Principal Clerk of Committees (FC)

Mrs Doreen C Mukwanka, Deputy Principal Clerk of Committees (FC)

Mr Charles Chishimba, Senior Committee Clerk (FC)

Mr Elijah I C Chilimboyi, Committee Clerk

Mrs Edna K Zgambo, Budget Analyst

Ms Luyando Chilala, Administrative Assistant

Mr Daniel Lupiya, Committee Assistant

Appendix 4 List of Witnesses

MINISTRY OF FINANCE AND NATIONAL PLANNING

Dr Situmbeko Musokotwane, Minister of Financing and National Planning
Mr Mukuli Chikuba, Permanent Secretary (BEA)
Mr Trevor Kaunda, Permanent Secretary
Mr Gregory Kabwa, Director IDM
Mr Patrick Mfungo, Principal Economist
Mr Willis Chipango, Director Budget
Mrs Kawana G Simumba, Treasurer Counsel
Mrs Mwila Zulu, Assistant Director Domestic Debt
Ms Onida Moyo, Planner

BANK OF ZAMBIA

Dr Denny Kalyalya, Governor Bank of Zambia
Ms Bertha Mhango, Deputy Governor
Dr Emmanuel Pamu, Advisor to the Governor
Dr Jonathan Chipili, Director Economics
Mrs Gladys Mposhe, Director Bank Supervision
Ms Besnat Mwanza, Assistant Director Communication
Mr Martin Mwiinga, Executive Assistant to the Governor
Ms Prudence Sintomba, Executive Assistant to the Deputy Governor

ZAMBIA INSTITUTE FOR POLICY ANALYSIS AND RESEARCH

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Mr Shimukungu Manchishi, Researcher
Mr Mbewe Kalikeka, Researcher

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Mr Emmanuel Mumba, Research Intern
Mr Chiti Nkunde, Communication Specialist
Ms Leya Namonje Tembo, Acting Head of Research and Analysis

MEMBERS OF THE PUBLIC

Mr Trevor Hambayi, Development Finance Associates