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ZAMBIA

Public Finance Review

STRENGTHENING FISCAL GOVERNANCE FOR TRANSFORMATIVE PUBLIC SECTOR INVESTMENTS

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Strengthening fiscal governance for transformative public sector investments

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Regional Vice President:	Victoria Kwakwa
Country Director:	Nathan M. Belete
Regional Director:	Hassan Zaman
Practice Manager:	Abha Prasad
Task Team Leaders:	Albert Pijuan Sala, Donna Andrews, and Joseph Simumba

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ACRONYMS

8NDP	Eighth National Development Plan
AGO	Accountant General's Office
BCC	Budget Call Circular
BO	Budget Office
CAG	Cluster Advisory Group
CDF	Constituency Development Fund
CoG	Center of Government
CP	Cooperation Partners
EBIDTA	Earnings before interest, taxes, depreciation, and amortization
FISP	Farmers' Input Support Programme
FRA	Food Reserve Agency
GRZ	Government of the Republic of Zambia
IDP	Integrated Development Plan
IFMIS	Integrated Financial Management Information System
IDC	Industrial Development Corporation
IMF	International Monetary Fund
IPP	Independent power producer
L&R	Laws and regulations
MLGRD	Ministry of Local Government and Rural Development
MMS	Monitoring and Management System
MoFNP	Ministry of Finance and National Planning
MPAs	Ministries, provinces, and agencies
PIM	Public investment management
PIPD	Project Investment and Portfolio Department
PPP	Public-private partnership
ROA	Return on assets
ROE	Return on equity
SOE	State-owned enterprise
TADAT	Tax Administration Diagnostic Assessment Tool
ZACL	Zambia Airports Corporation Limited
ZAMTEL	Zambia Telecommunications Company Limited
ZESCO	Zambia Electricity Supply Corporation Limited
ZPPA	Zambia Public Procurement Authority
ZRA	Zambia Revenue Authority
ZRL	Zambia Railways Limited

EXECUTIVE SUMMARY

Zambia is a resource-rich landlocked country located in Southern Africa. It is seeking to exploit its economic opportunities to improve livelihoods and reduce high poverty and unemployment. It has a population of about 20 million and a modest population density of 26 persons per km^2, with most people concentrated in urban areas. The country has been broadly classified as a lower middle-income economy since 2011, but Zambia's long-term vision is to become a prosperous industrial upper middle-income nation by 2030. If managed well, the use of its natural resources can create fiscal space to invest in human capital, adapt to climate change, reduce poverty, and reduce its debt.

However, the country faces several challenges which are having substantial impacts on public finances. It has struggled to diversify economic production away from the heavy dependence on mining—mainly copper—primarily due to weak linkages between capital-intensive mining and the mainstay agriculture sector. Zambia saw remarkable economic growth rates during the commodity super cycle between 2000 and 2010, supported by debt relief, which translated into significant increases in income per capita and kept public finances in check. However, as the mining boom faded, and despite the expansionary fiscal policies of the 2010s, the economy lacked resilience, and growth could not be sustained, severely reducing average income per capita. Inefficient public investment and widening fiscal deficits, exacerbated by poor state-owned enterprise (SOE) performance, did little to support or diversify economic growth. The COVID-19 pandemic severely hit an already struggling economy, and in November 2020, Zambia defaulted on its Eurobonds, requesting a debt treatment under the G20 Common Framework in early 2021.

Zambia's fiscal position is weak, underpinned by poor fiscal governance and subpar public sector investments. At the same time, the authorities face huge financing needs to support economic development. Following the multiple and compounding crises that started in 2020, the share of the population below the poverty line is estimated to have risen from 54.4 percent in 2015 to 60 percent in 2022. Implementing the Eighth National Development Plan in a context of worsening poverty trends will require fiscal space, but this will be constrained in the medium term during the ongoing debt restructuring.

This Public Finance Review (PFR) discusses the challenges and opportunities in strengthening Zambia's fiscal governance to support the government's ambitious development agenda through transformative investments. It analyses revenue and spending policies and trends over the decade 2013-2022, benchmarking them against peer countries. It identifies revenue-enhancing measures alongside improvements in expenditure efficiency and effectiveness. The report focuses in particular on public investment management (PIM) and SOEs, both of which present significant data quality and governance challenges that mask large fiscal risks and have prevented public returns on investment and growth-enhancing potential from being maximized. Addressing these public investment and SOE governance and transparency challenges will be essential to support economic transformation and prevent the unsustainable accumulation of liabilities in the future.

Though stable, Zambia's revenue effort is below average for Sub-Saharan Africa; more needs to be done to broaden the tax base—within and beyond mining—to enhance revenue potential and sustain revenue collection

Tax collections remained stable between 2012 and 2023 but contributed to the bulk of Zambia's revenue, helped by a comprehensive and well-defined tax system. Zambia raises most of its revenue by taxing income (comparing well to peers) from both firms and individuals, but mining taxes dominate the overall tax effort. In contrast, the contribution of VAT to revenue in recent years has been inconsistent and declining, with large VAT refund arrears.

Mineral royalties are the main non-tax revenue source and have more than doubled the overall revenue effort since 2017, reaching 5.6 percent of GDP by 2021. Despite mineral royalties bottoming out in 2016 owing to spiraling downward prices that constrained production, they contributed 44 percent of total non-tax revenues over 2013-2022. Recent changes to the mineral fiscal regime, which introduced a sliding scale with increasing marginal rates, have led to higher royalty collection, suggesting that the previous regime was highly regressive and distortive. However, royalties are volatile and reliant on a few mining houses. Meanwhile, other non-tax revenues have been growing, supported by digitization reforms, with user fees, fines, and charges nearly doubling over the last ten years, to account for 1.3 percent of GDP in 2022.

Zambia has scope to improve tax collection, which is below potential, likely due to significant tax expenditures and tax administration weaknesses which limit the countercyclical role of fiscal policy. Despite robust tax performance, at 4.1 percent of GDP, the tax gap remains large (and above regional and structural peers). The failure of the growth in tax revenues to keep up with GDP growth reflects Zambia's economic structure, particularly its heavy reliance on agriculture and mining, and the large and hard-to-reach informal sector. Tax revenues need to increase more than economic growth over the long run for a country to achieve relative financial stability in a context of increasing demand for public services. However, Zambia's long-term tax buoyancy hovers around one and is below peers, indicating leakages and the impact of significant tax expenditures, which limit the automatic stabilizer role of tax policy.

While a generous incentive regime has reduced the burden on investment imposed by Zambia's tax system, tax incentives have eroded revenues and been costly to the fiscus. Customs revenue losses averaged 2.2 percent of GDP between 2013 and 2019, before jumping to 4.2 percent by 2021. There are tradeoffs between seeking to attract investment and the opportunity cost of foregoing revenue in doing so, especially if these tax expenditures are unsuccessful at generating economic growth.

With fiscal and debt pressures persisting and limited access to financing, Zambia needs to strengthen expenditure management, avoiding the mistakes of past public investments, which did not deliver economic growth and crowded out social spending

Driven by an ambitious infrastructure development agenda—with massive investment in roads—public consumption and debt-financed public investment rose rapidly in the 2010s, but with associated fiscal deficits. Following persistent growth from 2013 onwards, total government spending peaked at 31.1 percent of GDP in 2020 at the height of the COVID-19 crisis, before declining as the pandemic receded (though remaining above regional peers). While real public expenditure grew at an average of 6 percent annually from 2014 to 2022 (9 percent for public investment), real GDP growth was just 2.6 percent. The wage bill dominated recurrent spending over 2013-20, but remained stable thanks to a wage and hiring freeze. At 7.5 percent of GDP in 2022, it is below the SSA average by more than one percentage point.

The vast public investment drive in the second half of the 2010s, focused on transport infrastructure, dented social sector spending in the lead up to the global pandemic, damaging service delivery and outcomes. A weakening focus on social sectors up until 2021 saw education and health suffer. Between 2014 and 2019, basic education enrolment rates fell. The inadequate number and inequitable distribution of teachers, poor school infrastructure and lack of textbooks contributed to poor quality learning environments and low learning outcomes. The health sector suffered from a lack of drugs and vaccines and significant staff shortages due to absenteeism and poor productivity amongst the remaining health workers. While the number of health facilities has increased, physical access to health facilities, particularly in rural areas, is still a challenge. More recently, the authorities have prioritized and protected social sector spending, including at subnational level, but data on the effects of this increase is not yet available.

At the same time, Zambia's public spending has been inefficient, with a history of poor execution, especially for externally financed projects and expenditures on goods and services. Challenges also exist within government-funded activities, critically the public investment budget, underscoring weak implementation capacity. According to budget data from the Accountant General's Office (AGO), there has been a deterioration in budget execution across all sectors, with the economic affairs, environmental protection and social protection sectors worst hit. By 2019, only 43 percent, 41 percent and 25 percent of every kwacha budgeted was spent in these sectors respectively. These developments occurred as the government implemented its large infrastructure program, driven by a few major projects. Frequent supplementary budgets in Zambia also suggest issues with the budget formulation process, affecting fiscal management and accountability. Supplementary budgets often don't meet the legal criteria of being unforeseeable and unavoidable, and domestic arrears are still generated, undermining both budget management and credibility. Budget execution challenges also include the long-standing problem of expenditure arrears in Zambia, which the authorities are only able to address slowly, being constrained by the limited fiscal space.

The significant public investment management challenges of the last decade need to be resolved to implement the transformative infrastructure needed to deliver the 8th National Development Plan while maintaining fiscal sustainability

PIM is a topic of much interest in Zambia lately. The country needs to improve the infrastructure in its key economic sectors—energy, transport, water and sanitation, and digital—as well as its vital social sectors, such as health and education. Improving PIM is part of the current government's focus to deliver on its transformation goals in the 8th NDP. However, the PIM system still struggles to meet the country's demand for quality projects that show value for money in terms of efficiency and effectiveness. The public investment program has often experienced many stalled and incomplete projects that waste resources, put strain on the budget, and increase public debt. At the same time, Zambia has achieved little success in attracting private capital to support the public investment program and benefit from private sector efficiencies. This is despite having a policy and legal framework in place for nearly 15 years to encourage public-private partnerships (PPPs) for public investment.

Zambia's PIM data and information systems are a significant obstacle for making good PIM choices. Several departments in the Ministry of Finance and National Planning (MoFNP) generate data related to their PIM roles, but there is no single dataset containing consistent project information across the ministry. Many ministries and agencies have information platforms that gather, store, and examine data to support the project decision-making process. However, most of those platforms are barely used due to low data quality and insufficient system updates and maintenance.

Current budget practices are not robust enough to support quality projects from the start. At the same time, there is a higher chance that portfolio rationalization exercises will be needed to manage funding needs for a project portfolio that is growing without a reliable capital plan. Poor project appraisal processes mean that ministries and agencies are not held accountable for proposing well-planned and sustainable projects. MoFNP also has weaknesses in its systems and processes for cash management, capital budget commitment controls, and procurement. These increase the risk of arrears accumulating, potentially plunging the country back into a difficult fiscal situation. Poor coordination mechanisms hinder effective project execution, while citizen engagement still lacks clear communication. Current practices are not sufficiently transparent to build citizens' trust.

At the local level, despite multiple sources for funding projects, local authorities are still struggling to meet local infrastructure needs. The Constituency Development Fund (CDF), which transfers conditional funds to local authorities earmarked for specific sectors and activities, provides for both top-down and bottom-up project identification and prioritization. The decentralized approval process for CDF projects has helped to improve the performance of the CDF. However, there are insufficient guidelines to ensure the effective integration of the CDF and local development plans. Poor prioritization will risk fragmenting CDF funds, leading to greater numbers of smaller projects.

The SOE sector generally underperforms and suffers from weak fiscal governance, posing significant fiscal risks

SOEs are essential for Zambia's economy, covering key sectors such as banking, finance, transportation, energy, and infrastructure. The number of SOEs directly owned by the government has risen from 30 in 2013 to 43 today. However, many SOEs are not performing well, with about half losing money, creating significant fiscal risks for the government. In 2020, SOEs' total assets were 49 percent of the country's GDP, but they incurred net losses of around 4 percent of GDP, mainly due to unprofitable investments and selling goods and services at low prices, worsening fiscal challenges. While SOEs employ only 1.5 percent of the formal sector workers, there are concerns about their high dependence on debt financing and low capitalization levels, which affect their operational efficiency and market competitiveness.

ZESCO and ZCCM-IH in the energy and mining sectors, respectively, are among the most influential SOEs in terms of their assets and liabilities. While some SOEs make profits, others—like Zambia Telecommunications Company Limited (ZAMTEL) and Zambia Railways Limited—always lose money, struggling with issues such as maintaining unprofitable infrastructure. Entities like ZESCO receive significant funding to address energy supply gaps to meet demand. Over 2018-2020, Zambia’s SOEs had a yearly fiscal cost of USD 185.1 million, mainly due to government capital injections aiming to ease financial difficulties in the sector. This expensive support, along with falling equity-to-asset ratios—down to 23 percent in 2020 from 47 percent in 2018—highlights the financial stability risks in the sector. At the same time, yearly fiscal risks related to SOEs reached an estimated annual average of almost USD 3 billion, 14.2 percent of GDP, over 2018-2020, mainly due to capital injections and government-guaranteed debt.

Zambia lacks a clear regulatory or institutional framework for collecting and organizing financial data on SOEs. While SOEs are required to prepare financial statements and share them with shareholders, including MoFNP, this is not always enforced. This makes it difficult to measure and manage the fiscal risks they raise. The legal and regulatory framework for SOE governance is also fragmented, hindering effective oversight and accountability. There is a dual reporting system between MoFNP and the Industrial Development Corporation and no clear laws defining the relationship between SOEs and their shareholders. Finally, key governance weaknesses include performance monitoring, board appointments, transparency, and public procurement.

RECOMMENDATIONS

Promote revenue mobilization

- Strengthen VAT administration and tax potential. Make the VAT regime more productive, align the VAT rate regionally, but avoid increasing VAT on basic consumption goods. Accelerate e-VAT system roll-out and speed up VAT refunds, using revenue windfalls to clear arrears on refunds.

- Strengthen tax expenditure governance to minimize fiscal costs vis-à-vis the economic competitiveness impacts. Review tax expenditures for their impact on the fiscus and economic competitiveness.

- Maximize and stabilize resource revenues over the business cycle. Review the competitiveness of the mineral fiscal regime and the state participation model in mining ventures to maximize revenue collection while attracting mining investments.

- Modernize and enforce revenue collection. Advance the digitalization of the revenue administration, including through ongoing linkages with the Integrated Financial Management Information System (IFMIS). Following the review of tax expenditures, fully tap the potential of non-resource tax bases.

Strengthen budgeting and spending efficiency

- Calibrate efficient spending towards priority areas while maintaining fiscal sustainability.

- Strengthen budget planning and credibility. Enhance budget estimates to represent accurate projections of sector requirements, avoiding unnecessary budget supplements.

- Maximize concessional sources of financing and strengthen debt management, swiftly adopting and implementing regulations under the Public Debt Management Act.

- Improve fiscal data availability and use. Adopt systems that allow easier access, cross-validation from different sources, and use of budget data for fiscal management.

Strengthen PIM data governance and use

- Develop a single repository of projects in MoFNP and ensure consistency of financial data.

- Ensure all spending agencies are using IFMIS and track project portfolios against the capital budget.

- Build a data culture, creating data platforms and fostering data use for citizen engagement.

Enhance budget practices and coordination for investment project preparation and implementation

- Integrate financial planning of capital budgeting into the medium-term expenditure framework, including developing baseline budgeting.

- Develop an integrated approach to strengthening project quality at entry across all finance ministry departments.

- Introduce a single coordination committee which includes projects funded by cooperating partners as well as other sources.

- Commence coordination with budget discussions, continuing it throughout the project management cycle.

- Develop an action plan to strengthen enforcement of PIM legislation, regulation, and guidelines, including managing change.

Improve project prioritization and implementation at the local level, engaging citizens

- Establish a local authorizing environment for local resources, including HRM and funds, to strengthen accountability.

- Develop procedural manuals to support a more systematic approach to citizen engagement.

- Design procedures for integrating subnational development plans with medium-term priorities for communities into the approval process for CDF projects.

- Develop mechanisms for information sharing between subnational entities on issues such as project approval, technical evaluation, procurement, fund disbursal and implementation.

Strengthen the SOE regulatory framework

- Propose and enact a single, unified, comprehensive law applying to all SOEs, based on a reassessment of the several legal and regulatory instruments currently governing their operations.

- Realign the institutional framework for SOEs to eliminate dual reporting relationships by legislating for a single independent body responsible for overseeing their operations.

- Complete the draft of the National Corporate Governance guidelines, which are critical for establishing a consistent framework for governance practices in Zambia.

Improve the SOE ownership policy

- Assess the rationale for state ownership and revisit it periodically, weighing up the trade-offs involved in public financial resource constraints and potential negative market impacts of SOE involvement.

- Develop a dividend policy for SOEs, which should be inclusive and transparent.

Address fiscal risks and expenses related to SOEs

- Reduce fiscal risks and costs by establishing fiscal discipline rules and a robust fiscal risk monitoring system.

- Implement additional measures to improve SOEs' transparency and accountability.

CHAPTER 1
PUBLIC FINANCE DEVELOPMENTS, CHALLENGES, AND OPPORTUNITIES

This chapter describes broad macro-fiscal developments between 2013 and 2022, framing the PFR and underpinning the selected dedicated chapters on public investment management and SOEs. It analyzes revenue policies and performance over 10 years and discusses issues of adequacy, efficiency, and progressivity of the tax system. The chapter analyzes spending trends over the study period and identifies spending allocation and execution challenges impacting growth and poverty outcomes. Finally, it provides recommendations to promote revenue mobilization, strengthen budgeting, and enhance spending efficiency, and models their impact on fiscal sustainability.

1.1 INTRODUCTION

Zambia's economic growth faltered as the commodity boom ended, while the subsequent public investment-driven growth impulse failed to raise incomes and worsened poverty

Zambia saw remarkable economic growth rates during 2000-2010, driven by a mining and copper boom, which translated into significant increases in income per capita, while debt relief kept public finances in check. From independence in 1964 until the end of the 1990s, Zambia's growth performance was marked by continuous shocks and policy changes that brought only modest achievements and economic volatility (World Bank, 2004). However, between 2001 and 2010, Zambia experienced a remarkable growth acceleration, driven mainly by the mining sector and elevated copper prices. Real gross domestic product (GDP) grew at an average rate of 7.7 percent per year. In 1994, Zambia's GDP per capita was only 64 percent of its level at independence (USD 1,211), whereas in 2011 it surpassed it, reaching USD 1,223 (constant 2015 dollars). In 2005, Zambia reached the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative, triggering over USD 3.9 billion in debt relief and further supporting the decade's robust growth (IMF, 2005). At the same time, fiscal deficits in the 2000s were supported by substantial mining revenue and averaged 0.6 percent, keeping public finances in check.

Despite the expansionary fiscal policies of the 2010s, the economy was not resilient, and growth could not be sustained, severely reducing incomes per capita. Between 2011 and 2019, before the COVID-19 pandemic, real GDP growth slowed to 4.1 percent per year and 0.9 percent in per capita terms. A combination of domestic and external shocks—including climate, and severe fiscal and external imbalances—continuously hindered Zambia's growth prospects throughout the decade. As terms of trade deteriorated and growth rates fell, the drivers of growth shifted, with government-related services, construction, and retail taking a more critical role. Although the economy maintained positive per capita growth until 2014, growth had already weakened. In 2015, GDP per capita fell by 0.3 percent, the first contraction since 1998. In the 2010s, the country experienced one of the most severe setbacks in GDP per capita growth compared to the previous decade.

Inefficient public investment and widening fiscal deficits, exacerbated by poor SOE performance, did little to support or diversify economic growth, leading to the 2020 external debt default

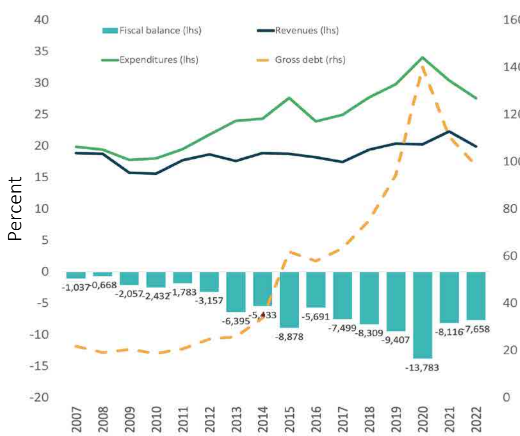
Driven by an ambitious infrastructure development agenda, public consumption and debt-financed public investment rose rapidly in the 2010s, but with associated interest payments and fiscal deficits. In 2017, Zambia set out an ambitious public infrastructure plan to rekindle and diversify the economy.[1] The country invested in new infrastructure projects in energy, roads, rail, and airports, fueling investment spending and public consumption. However, many of these projects were poorly appraised and implemented, often run through state-owned enterprises (SOEs) with weak governance arrangements and limited fiscal oversight.

1 Seventh National Development Plan, 7NDP 2017–2021.

While private investment as a share of GDP peaked in 2015 and fell thereafter, public investment expanded throughout the decade, nearly doubling between 2010 and 2013 and multiplying by over 2.5 times between 2016 and 2019 (Figure 3). Between 2011 and 2019, government consumption growth averaged 12.1 percent annually, fiscal deficits averaged 5.9 percent of GDP annually, and debt swelled above 100 percent of GDP (Figure 1). In the same period, interest payments as a share of revenues more than quintupled (Figure 2). This expansion happened despite subpar absorption capacity, with public investment budgets consistently under-executing over this period (Section 1.3).

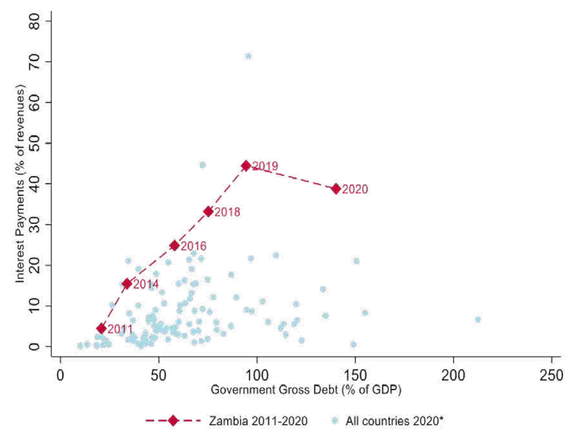
Expansionary fiscal policies to rekindle and diversify the economy through public investment contributed to growing fiscal deficits, debt accumulation, and rocketing interest payments...

Figure 1: Government fiscal accounts (percent of GDP)



Source: IMF World Economic Outlook.

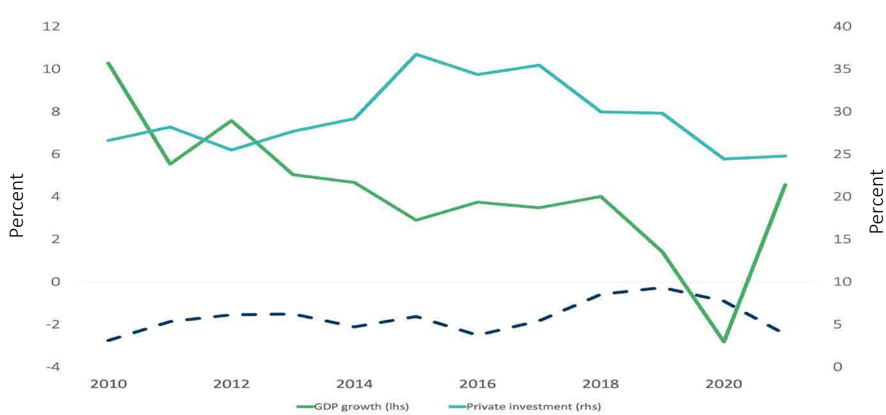
Figure 2: Interest payments percent of revenues) and government gross debt percent of GDP)



Source: World Bank and IMF.

...but GDP growth fell despite increased public investment

Figure 3: GDP growth (percent), public and private investment (percent of GDP)



Source: IMF (2023a).

Macroeconomic imbalances mounted as public debt ballooned and capital inflows weakened during the second half of the 2010s, triggering the 2020 external debt default when COVID-19 hit. The heavy public investment-led growth model failed to stimulate sustained and inclusive growth or generate returns to repay the borrowing. The collapse of copper prices, increasing non-oil imports for public investment projects, and rising interest payments on public debt also deteriorated Zambia's external accounts, especially from the mid-2010s onwards. Net foreign direct investment inflows (FDI) fell sharply by the end of the 2010s, reaching less than 1 percent of GDP in 2020. The COVID-19 pandemic severely hit an already struggling economy, and in November 2020, Zambia defaulted on its Eurobonds, requesting a debt treatment under the G20 Common Framework in early 2021.

Underperforming SOEs added to the debt pressures, accruing significant liabilities. In 2020, 43 enterprises were directly owned by government-controlled assets worth 49 percent of the country's GDP, but generated net losses equivalent to around 4 percent of GDP. This weak contribution is largely due to unsustainable investments and below-cost provision of goods and services, exacerbating fiscal vulnerabilities and performance. The energy utility ZESCO Limited (ZESCO) alone had a total outstanding debt amounting to USD 2.1 billion at end-2022, and on-lent loans from the central government of USD 595.2 million. Furthermore, the strategic mining and energy investment company, Zambia Consolidated Copper Investment Holdings (ZCCM-IH), obtains hardly any dividends from its involvement in major mining projects. As a result, limited dividends accrue to government revenues and income taxes from essential mines are low, with little information on how the state participates in mining ventures.

Meanwhile, structural challenges persistently impact public finances and weaken fiscal policy's countercyclical role and ability to support inclusive growth and poverty reduction. The ambitious infrastructure development agenda in the 2010s has failed to diversify the Zambian economy. On the one hand, copper dominates exports and accounts for over two-thirds of foreign exchange (FX) earnings, while mining companies contribute more than 40 percent of total government revenues (2022).[2] The narrow tax base exposes revenues to mining sector volatility. At the same time, spending of resource revenues during booms prevent fiscal buffers being built to weather downsides. On the other hand, the mainstay rainfed agriculture sector, which employs about 60 percent of the population, is heavily subsidized, with 70 percent of public expenditures in agriculture (2 percent of GDP) allocated to the Food Reserve Agency (FRA) and the maize-centric Farmers' Input Support Program (FISP). The public support policies are inefficient and distortive, carrying large fiscal costs and keeping rural households poor (CEM, 2024). Using resource revenues to smooth spending over the economic cycle and enhancing fiscal policy's redistributive function will be essential to supporting more inclusive growth.

Government will have to deepen macro-fiscal and governance reforms to promote macroeconomic stability and transform its public investment program to catalyze private investments and accelerate growth

[2] Ministry of Finance and National Planning (MoFNP) and Extractive Industries Transparency Initiative.

The current administration has launched an ambitious macro-fiscal reform program to restore fiscal and debt sustainability. After the election in August 2021, the current administration launched bold macro-fiscal and structural reforms supported by World Bank development policy financing and an IMF Extended Credit Facility (ECF) program to regain fiscal and debt sustainability. The authorities reversed years of lapses in budget credibility. They returned the primary fiscal balance to a surplus of 0.8 percent of GDP in 2022—recording a positive adjustment of 6.6 percentage points of GDP—achieved primarily by ending fuel subsidies, streamlining spending on fertilizer procurement, and canceling non-performing investment projects.

At the same time, the authorities face huge financing needs to support economic development and reduce poverty, which have only grown with recent shocks. The Eighth National Development Plan (8NDP) identifies critical reforms and investments that are needed in four strategic development areas to accelerate socioeconomic transformation for improved livelihoods over the medium term. The four areas are economic transformation and job creation, human and social development, environmental sustainability, and a good governance environment. However, following the compounding crises that started in 2020, the share of the population below the poverty line is estimated to have risen from 54.4 percent in 2015 to 60 percent in 2022.[3] Rural poverty remains high, with almost 80 percent of the rural population living below the poverty line in 2022. Implementing the 8NDP in a context of worsening poverty trends will require fiscal space, but this will be constrained in the medium term during the ongoing debt restructuring.

As external financing during the debt restructuring will be constrained, it is critical to optimize fiscal space and use limited resources for catalytic investments. Since substantial fiscal risks from wasteful public investments and SOEs triggered the default, Zambia has been shut out of international capital markets. It has had limited access to non-concessional external financing, and this situation will continue in the near term following the debt restructuring. Considering the limited fiscal space, it is critical for the Government of the Republic of Zambia (GRZ) to maximize domestic revenue while directing public resources to development priorities and spending them more efficiently.

This PFR seeks to provide evidence and recommendations to strengthen fiscal governance to support GRZ's ambitious development agenda through transformative investments. It explores revenue and spending policies and trends over the decade 2013-2022, benchmarking them against peer countries. It identifies revenue-enhancing measures alongside improvements in expenditure efficiency and effectiveness (Chapter 1). It then selectively focuses on two areas, public investment management (Chapter 2) and SOEs (Chapter 3). Both areas present significant data quality and governance challenges that mask large fiscal risks and have prevented public returns on investment and growth-enhancing potential from being maximized. It is essential to address these public investment and SOE governance and transparency challenges to support economic transformation and prevent future liabilities from building unsustainably.

[3] Zambia Statistical Agency (2023).

1.2 REVENUE

1.2.1 Policy and Institutional Background

Zambia's tax system is comprehensive and well-defined, with direct and indirect tax rates comparable to countries at its income level

Zambia relies on a multi-tier tax policy regime dominated by income taxation. Under its Income Tax Act, Zambia operates source-based income taxation, subjecting individuals (personal income) and business establishments (corporate income) to mandatory income tax.[4] In addition, Zambian residents (individuals and business entities) are subject to income tax on interest and dividends from sources outside Zambia. Personal income tax (PIT), operating as a pay-as-you-earn (PAYE) regime, falls under four thresholds, with a maximum rate of 37 percent for monthly income above ZMW 9,200 (USD 373) and a minimum of zero for income below ZMW 5,100 (USD 207). Whereas the standard corporate income tax (CIT) rate has been 30 percent since 2022 (lowered from 35 percent in the years prior), different income sources are charged different CIT rates. For example, electronic communications networks are taxed at 35 percent whereas agro-processing is taxed at 10 percent. Small businesses unable to keep records pay a base tax of per annum.

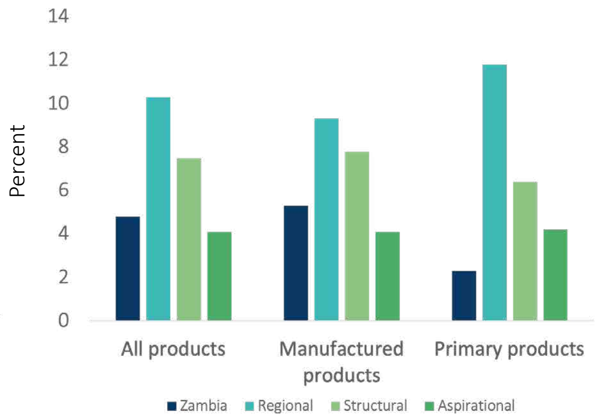
Alongside the income tax regime are several forms of indirect taxation, international taxes, grants, and social contributions. The value-added tax (VAT) regime, introduced in 1995, is levied at 16 percent, while an excise duty regime for imported or domestically produced goods and a customs regime operate alongside tax protocols under the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA).[5] Social contributions are also considered as revenue in Zambia; they currently stand at 10 percent of employee income, and are equally distributed between employer and employee.

Zambia's tax rates are similar to SSA peers, though tariffs are significantly lower

Figure 4: Selected domestic tax rates (percent), 2015-2022

Source: KPMG.

Figure 5: Applied tariff rates (percent), 2015-2022



Source: WDI.

[4] GRZ. The Law of Zambia. Chapter 323. The Income Tax Act.
[5] Zambia has been a SADC member since inauguration in 1992.

The tax system is simple, with few tax rates and well-defined tax bases (Annex 1A). It is comparable to Zambia's sub-Saharan Africa (SSA) peers, except for its lower import tariffs.[6] While Zambia's standard CIT rate is slightly higher than its peers (Figure 4), it is comparable to the regional average. However, Zambia's effective CIT may be lower due to preferential tax treatments, such as 15 percent for manufacturing fertilizers and 20 percent for public-private partnerships (Annex 1A). Conversely, Zambia offers significantly lower applied import tariffs than its peers, particularly on primary products, which are five times lower than the regional average (Figure 5). This substantial difference may intensify competition but creates hurdles for Zambia's domestic industries. Environmental taxes include motor vehicle taxes and excise duties on pollutants such as plastic bags. In addition, there is a motor vehicle surtax involving a one-time flat tax imposed on vehicles older than five years. The carbon emissions surtax is charged on motor vehicles on importation, in transition through Zambia, and annually based on engine displacement.[7]

The mineral fiscal regime was amended recently to make it more competitive, with mineral royalties made more progressive and tax-deductible

Non-tax revenue in Zambia primarily includes mineral royalties, fees and charges for services provided by the government, and dividends from SOEs. In 2023 Zambia introduced progressive marginal tax rates for the mineral royalty tax and reintroduced its deductibility from the CIT.[8] As this may result in revenue losses over the short term, mitigation measures included the removal of VAT and excise exemptions for fuel. Currently, the mineral royalty regime collects 4 to 10 percent royalties on the base value of various minerals produced or recoverable (Annex 1A).[9] An on-going World Bank analysis of the competitiveness of the mining fiscal regime will provide details on the gaps in the current regime and how it can be adjusted to support Zambia's economic transformation.[10]

1.2.2 Trends in Performance and Adequacy

Zambia's tax effort is stable but below the SSA average; it relies on taxing income, dominated by mining taxes, while VAT is underperforming

Zambia's domestic revenue effort has gradually increased over the past decade but has remained below the SSA average, except during 2021, which registered a surge in both tax and non-tax revenues. As a share of GDP, total revenues increased from 16.9 percent in 2013 to 19.9 percent in 2022 (Figure 6). Stable tax revenues in 2022 helped offset lower collections of mineral royalties as output reduced and copper prices slumped.

[6] Zambia's structural and aspirational peers were selected through a data-led approach using World Bank available tools based on GDP per capita and region. Structural peers are selected from lower middle-income countries and include Cambodia, Nepal, and Tajikistan; regional peers are from Sub-Saharan Africa and include Guinea, Senegal, Benin, Cameron, and Zimbabwe; aspirational peers are upper middle-income countries and include Peru, Ecuador, Sri Lanka, Azerbaijan, and Guatemala.

[7] GRZ (2009). The carbon emission surtax excludes ambulances, prison vans and vehicles propelled by non-pollutant energy sources.

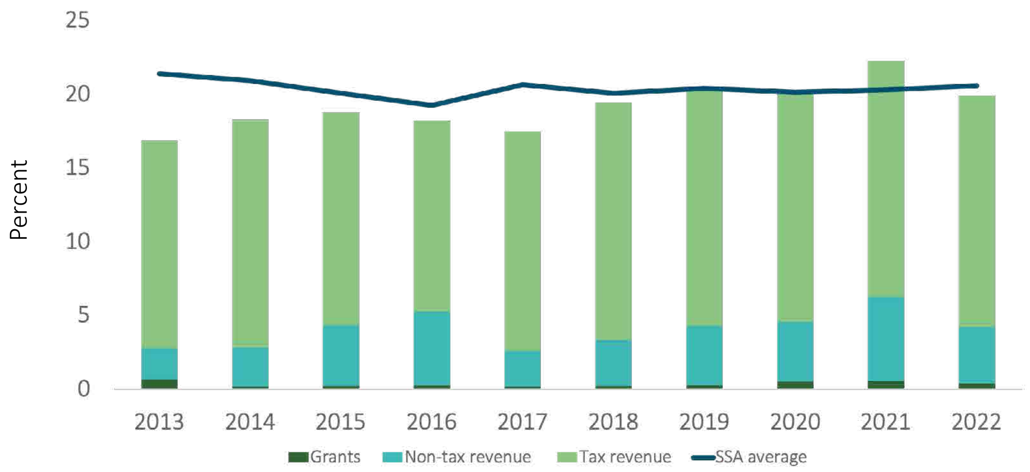
[8] International Monetary Fund, 2023.

[9] Government of the Republic of Zambia. Mineral Royalty Tax Act.

[10] Parallel detailed analysis on the mining fiscal regime is underway through the project *Positioning Africa East to benefit from the global energy transition: Leveraging green minerals for economic transformation.*

Revenues hover around 20 percent of GDP and tax revenues dominate collection

Figure 6: General government review as share of GDP (percent)



Source: MoFNP and World Bank staff calculations.

Tax collections remained stable between 2013 and 2022 but contributed to the bulk of Zambia's revenue, helped by reforms over the last decade. Zambia's tax revenue as a percentage of GDP averaged 15.1 percent over this period and was higher than both regional and aspirational peers between 2019-2021 (Figure 8). No major adjustments were made to the tax policy during this period, but the tax effort benefitted from increased administrative efficiency, particularly technological advances. For example, online tax services introduced in 2013 allowed taxpayers to register and file their returns electronically. This digital uptake has empowered the Zambia Revenue Authority (ZRA) to more effectively analyze and audit taxpayer registrations, resulting in enhanced compliance rates.

Zambia's tax revenues as a share of GDP are significant and growing compared to regional peers, whereas VAT contributions to revenue growth are thin and erratic

Figure 7: Income taxes as share of GDP (percent)

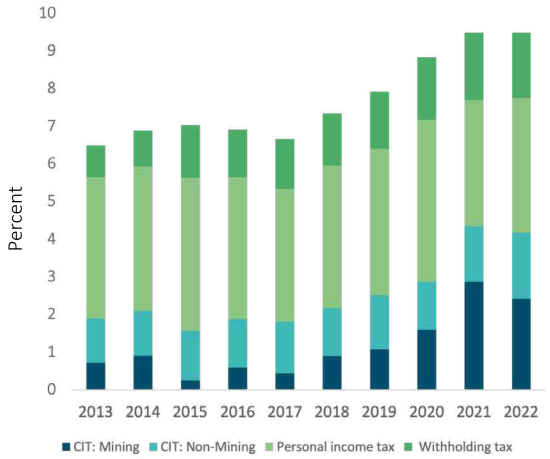
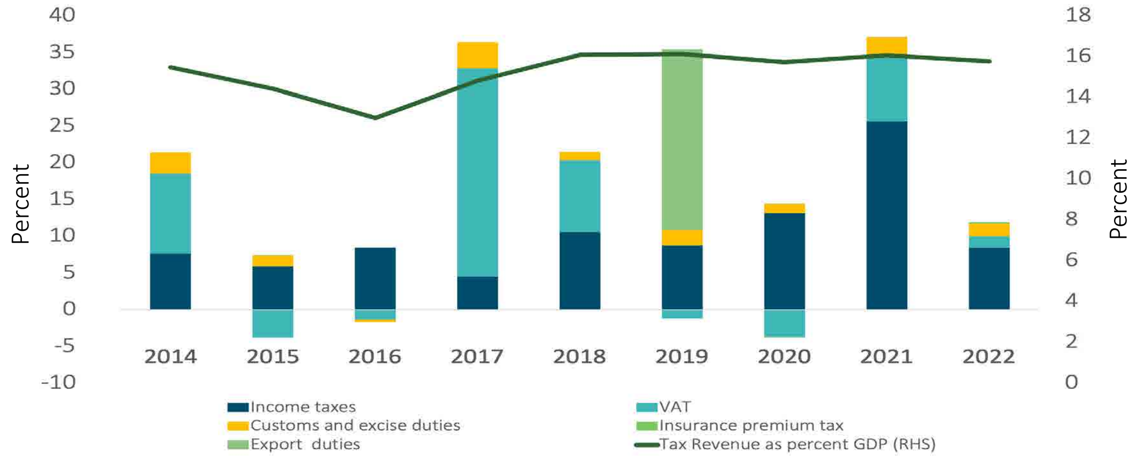


Figure 8: Selected tax revenues as share of GDP – Zambia and peers, 2019-2021

Figure 9: Contributions to tax revenue growth



Source: MoFNP and World Bank staff calculations.

Zambia raises most of its revenue by taxing income, from both firms and individuals, but mining taxes dominate the overall tax effort (Figure 7). Income taxes grew their contribution from 46 percent of total revenues in 2013 to 60.3 percent in 2022 (in GDP terms, from 8.1 to 9.5 percent over the same period). The mining sector is a significant contributor to fiscal revenue (8.5 percent of GDP in 2022), with mining corporate income tax accounting for over 40 percent of CIT collection in the last decade on average (almost two-thirds in 2022). All mining taxes combined represented 40 percent of tax revenue in 2022. Despite the recent relaxation of the fiscal regime, which re-introduced mineral royalties, mining income taxes have been expanding, suggesting that the previous regime was highly distortionary (Figure 10). Another explanation could be that it has incentivized the processing of lower-grade ores, which has led to higher operational profits and taxes.[11] However, mining revenue has a narrow tax base, with two mines operated by First Quantum Minerals and one by Barrick generating almost three-quarters of all mining receipts in 2022 (Figure 11). Income tax measures introduced in 2018—notably taxation of the informal sector, the rollout of land titling to increase land rentals, transfer pricing enhancements, and the appointment of revenue collecting agents—saw income taxes surge and maintain robust contributions to revenue growth (Figure 9).

In contrast, the contribution of VAT to revenue in recent years has been inconsistent and declining, with large VAT refund arrears. The introduction of VAT in 1995 was a vital policy reform, but subsequent changes have diminished its revenue contribution and made it volatile. The VAT rate, first set at 17.5 percent, was raised to 20 percent in 1997 before settling at 16 percent since 2008. As a result, the contribution of VAT, which had increased to 6.5 percent of GDP by 2014, slumped to 3.7 percent in 2016 (Figure 9). Reduced import volumes can also explain this contraction, as economic activity slowed due to a prolonged drought, electricity shortages, and debt build-up. The withholding VAT reform launched in 2017 introduced VAT payment on the supply of goods and services by the purchaser to address non-compliance. This helped raise VAT collections to 6.3 percent of GDP by 2018 before slumping again. It has remained on a declining trend since then as other administration challenges, notably VAT refunds, have intensified. Meanwhile, Zambia faces

[11] It may pay for mining houses to not only mine but to put the material through the processing plant.

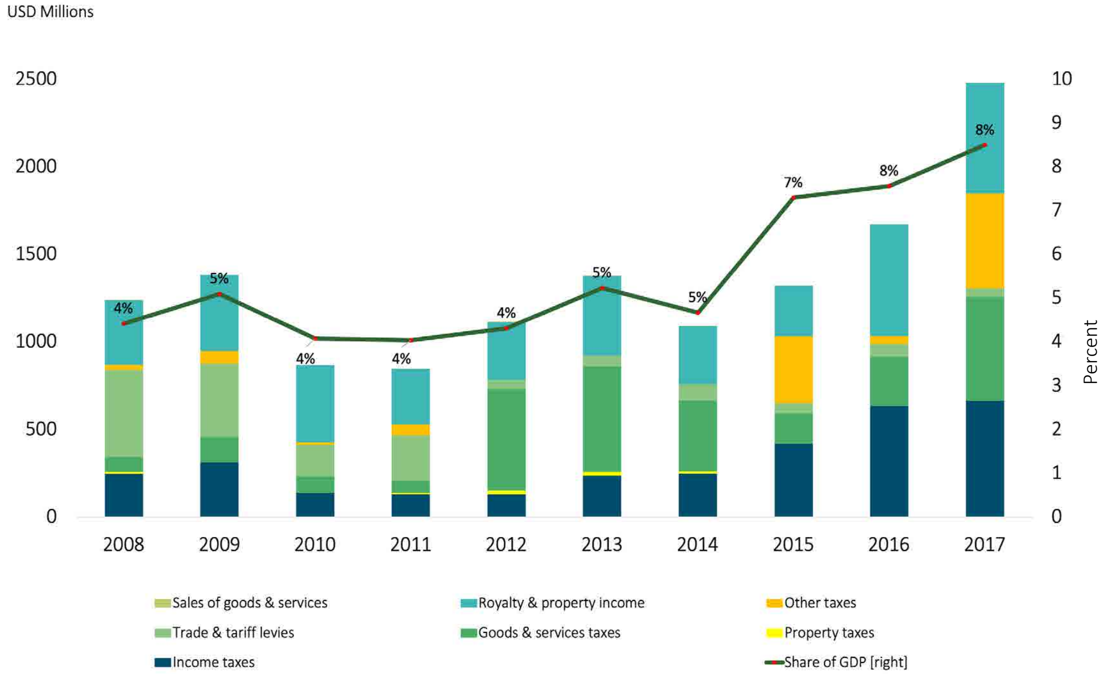
a significant backlog of VAT arrears, with a stock totaling ZMW 12,209 million (USD 493 million) at the end of 2022. This VAT performance is unique to Zambia, with all its regional peers having seen rising contributions of VAT over the last two decades. Zambia's VAT revenue averaged 4.8 percent of GDP over the period 2019-2021, compared to 6.3 percent for structural peers.

Mineral royalties are the main non-tax revenue source, but are volatile and reliant on a few mining houses, while other non-tax revenues are growing, supported by digitization reforms

Non-tax revenues add significantly to total revenues in Zambia, driven by mineral royalties. This type of revenue has more than doubled the overall effort since 2017, reaching 5.6 percent of GDP by 2021. However, these revenue sources have fluctuated strongly, mainly owing to the volatility of mineral royalties (Figure 10). Despite mineral royalties bottoming out in 2016 owing to spiraling downward prices that constrained production, they contributed 44 percent of total non-tax revenues between 2013–2022 (reaching 55 percent in 2022, the highest level since 2013). The recent changes to the mineral fiscal regime, which introduced a sliding scale with increasing marginal rates (much like a PAYE system), have led to higher royalty collection, suggesting that the previous regime was highly regressive and distortive.

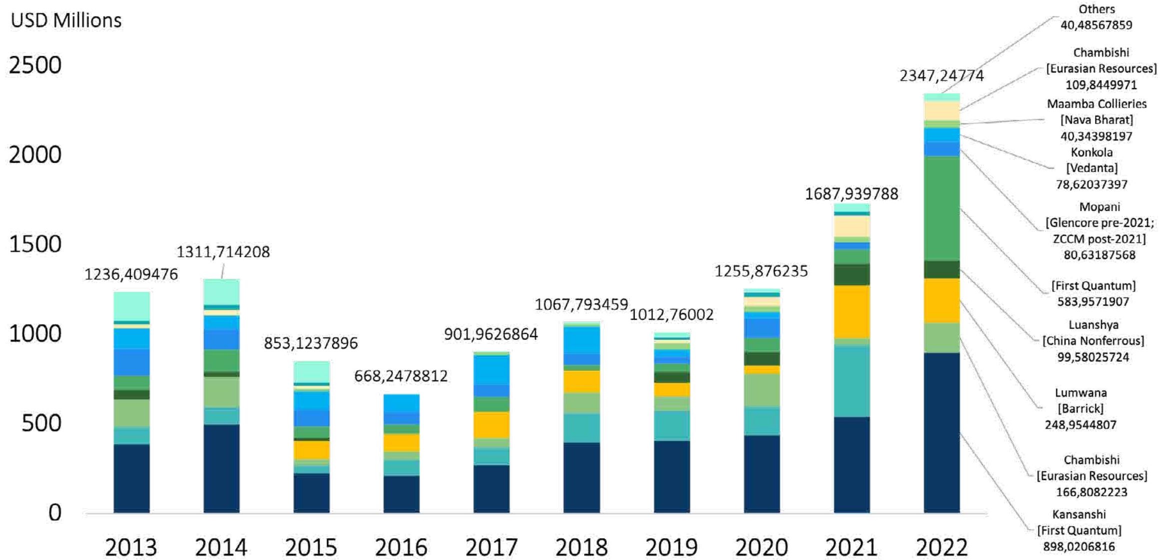
Recent changes to the mineral fiscal regime have supported mining revenue growth, but the tax base is narrow and dependent on a few mining operations

Figure 10: Government revenues from extractive industries (USD million)



Source: Extractive Industries Transparency Initiative.

Figure 11: Extractive resource revenue by operation and operating company (USD million)

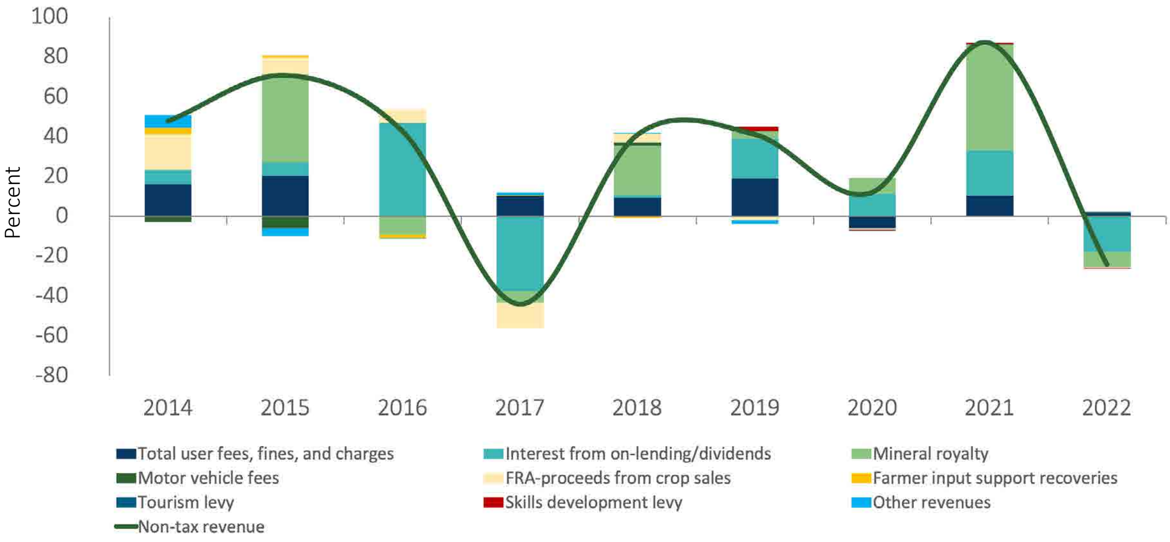


Source: Extractive Industries Transparency Initiative.

Meanwhile, other non-tax revenues have been growing, supported by digitization reforms (Figure 12), with user fees, fines, and charges nearly doubling over the last ten years, to account for 1.3 percent of GDP in 2022 (and almost 35 percent of non-tax revenues). Their growth benefitted from digitization initiatives, including the introduction of the Government Service Bus (GSB)—a consolidated digital platform integrated with an online payment gateway—as well as efforts to eliminate leakages and collect user fees for services, such as passport issuance through commercial banks, and the introduction of road toll fees and smart toll payments. Other sources of non-tax revenue have been volatile and underwhelming in recent years. For instance, the contribution of dividends fell from 37.9 percent in 2016 to 0.4 percent in 2017 because of a new policy that capped lending to the central government to 15 percent, driving greater profitability in the same year, alongside valuation gains as the kwacha depreciated.

Beyond mineral royalties, other non-tax revenues have supported revenue growth, underpinned by digital administration and payment reforms

Figure 12: Contributions to non-tax revenue growth (percent)



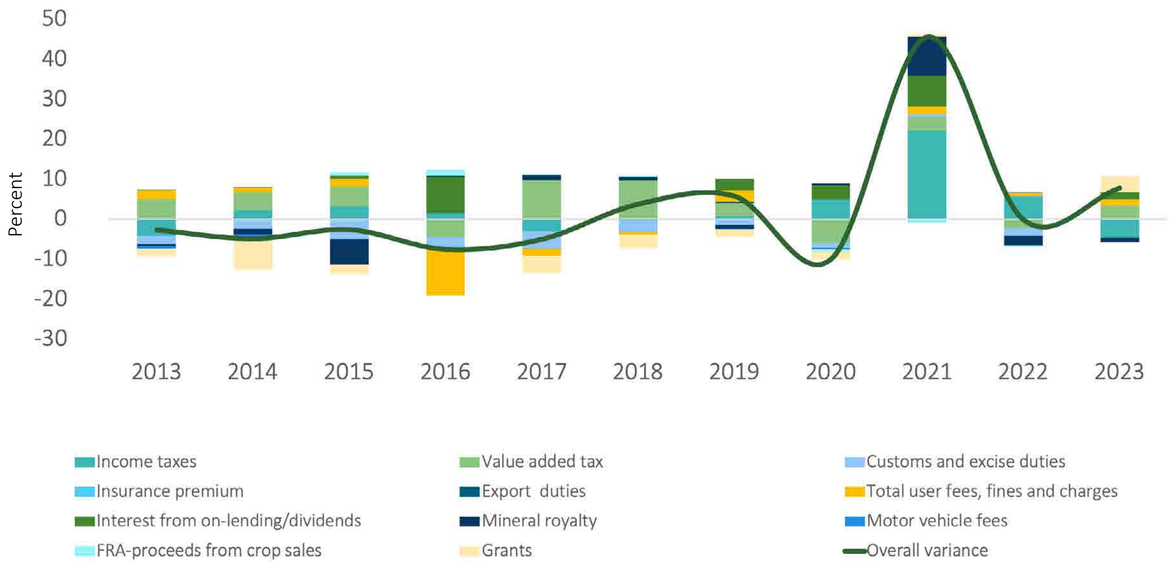
Source: MoFNP and World Bank staff calculations.

Deviations between forecast and realized revenues are not significant

Differences between budgeted and realized mineral receipts drive revenue variance, although overall variance on average remains within single digits. Mineral royalty volatility swings revenues from year to year and drives divergences between forecast and collected revenues. A dramatic example was 2021 when mineral-based revenues surged owing to rising commodity prices and reforms to the mineral fiscal regime. That year saw large income tax variance too, also mining-driven. Despite this volatility and large revenue variance from several revenue heads, overall revenues have been within 10 percent variation of their target budget over the last decade (Figure 13). Customs and excise duties consistently fell short of the budget, but were offset by other revenues. Customs and excise tax collection is more prone to volatility due to limitations in administrative capacity, especially technology for tracking and processing payments, currency fluctuations which complicate the assessment and collection of revenues, and the large informal economy. In addition to adopting technology, in 2023 ZRA partnered with local authorities, appointing city and municipal councils as tax collection agents. This partnership leverages their strategic advantage in collecting specific taxes, such as excise duties on domestic production or distribution.

Except for 2021, differences between budgeted and realized revenues remain small, with the biggest variances in income tax and mineral royalties

Figure 13: Revenue variance – contribution of various revenue heads (percent)



Source: Authors, from MoFNP data.

Zambia's tax collection is below its potential, likely due to significant tax expenditures and tax administration weaknesses, limiting fiscal policy's countercyclical role

Despite robust tax performance, the tax gap remains large, and is explained by structural factors.[12] The country's tax potential is estimated at 19.1 percent of GDP. Zambia's tax gap, at 4.1 percent of GDP, is higher than for regional and structural peers (Figure 14). This failure of the growth in tax revenues to keep up with GDP growth reflects Zambia's economic structure, particularly its heavy reliance on agriculture and mining, and the large and hard-to-reach informal sector. Zambia could almost double its tax collection if its tax potential was fully tapped.[13] In contrast to many countries in Africa that have a long-term buoyancy of around one,[14] Zambia's long-term buoyancy is below one. This pattern is driven by the low buoyancy of taxes on goods and services, particularly VAT. It implies that for every 1 percentage increase in GDP, tax revenue from goods and services would increase only by 0.9 percent (excluding any discretionary changes introduced during this period). While all taxes, including direct income taxes (corporate and personal), have a long-term buoyancy of slightly above 1, they remain far lower than peers, particularly regional and structural peers (Figure 15).

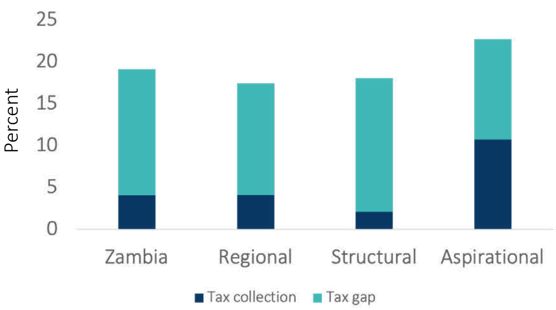
[12] Gupta et al (2021).

[13] Policy Monitoring and Research Centre (2019).

[14] Tax buoyancy measures the tax revenue's responsiveness to a change in GDP due to changes in economic growth and discretionary policy changes. A buoyancy of one would imply that an extra one percent of GDP would increase tax revenue also by one percent, thus leaving the tax-to-GDP ratio unchanged.

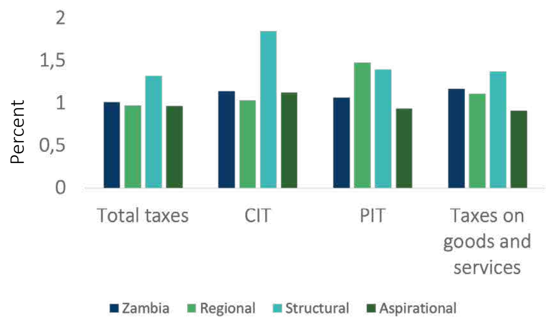
Zambia's tax gap is larger than those of SSA and structural peers, and overall tax increases by less than one percent for every one percent of GDP growth

Figure 14.Average tax gap (percent of GDP), 2017-2020



Source: World Bank staff estimates.

Figure 15: Long-term tax buoyancy, 1980-2021



Source: World Bank staff estimates.

The lower long-term buoyancy suggests leakages and the impact of significant tax expenditures, limiting the automatic stabilizer role of tax policy. Zambia's heavy reliance on natural resource revenues could have implications for non-resource domestic tax collection, affecting overall and tax-specific buoyancies. Given this dependency, Zambia may not be fully tapping the potential of non-resource tax bases. The challenge could be exacerbated by revenue leakages in tax instruments that benefit from tax expenditures, yielding negative marginal effective tax rates (Section 1.2.3), as well as high debt levels exerting downward pressure on tax buoyancy.[15] Compared to peers, these trends have reduced the country's ability to employ taxation as an automatic stabilizer in the short run and to use tax policy for long-term fiscal sustainability.[16]

1.2.3 Tax Efficiency and Impacts

The country's tax efficiency is undermined by a generous incentive regime and tax administration challenges

Zambia's below-potential revenue performance reflects subpar tax administration. Zambia's lower short-term buoyancy partly reflects institutional weaknesses in collecting taxes. The recent TADAT underscored several good practices, including the use of technology to raise efficiency in tax administration (Table 1); close coordination between ZRA and MoFNP, allowing the two institutions to jointly generate revenue forecasts; good governance practices; and a good cadre of staff focused on modernization (IMF, 2022).[17] Nonetheless, several challenges have undermined these efforts, including inaccuracies in the taxpayer register, low on-time filing rates for core taxes, an accumulation of tax arrears, a significantly slow process for handling VAT refund claims coupled

[15] A buoyant tax system would allow the government to service its debt more easily through increased tax revenues that come with economic growth. Conversely, if the tax system is not buoyant, even during periods of economic growth, the government may struggle to generate additional revenue to pay down debt, further straining public finances.

[16] When the economy contracts or grows more slowly during a downturn, tax revenues will fall or increase faster than the GDP. This squeezes the fiscal space to increase spending to counteract the downturn. Hence, the government may need to cut spending, increase borrowing, or find alternative revenue sources to finance counter-cyclical fiscal policies.

[17] ZRA operates on a multi-year strategic plan, publishes annual operational reports, and audited financial statements, and continuously conducts perception surveys, the results of which are adopted to improve its relationship with taxpayers. It also has a quality assurance program to review the quality of audit cases.

with insufficient funds to pay them, and a lack of integration between the revenue accounting system and MoFNP's system.

Table 1: Key technological tools used by ZRA to raise efficiency in revenue mobilization between 2013 and 2023

Tool	Definition and purpose
Tax Online	An electronic tax administration system introduced in 2013 to facilitate filing returns and paying domestic taxes. In 2020, this system was upgraded from TaxOnline I to TaxOnline II—although some functionalities are not yet operational.
Electronic Fiscal Devices (EFDs)	Used as part of the Tax Invoice Management System, there are three types of EFDs, namely: (i) Fiscal Cash register (FCR); (ii) Electronic Signature Device (ESD); and (ii) Virtual Electronic Fiscal Device (V-EFD). EFDs aim to record sales for income taxes such as corporate income tax, turnover tax, rental income tax, and presumptive tax on gaming and betting. Before 2020, EFDs only applied to VAT, the insurance premium levy and tourism levy.
Electronic production reporting system for mining	Starting in 2017, mining entities were migrated to the full-time standardized electronic production reporting system that allowed ZRA and the Ministry of Mines to verify data submitted by these entities to determine tax dues.
TaxOnApp	Designed for small and medium taxpayers, this internet-based mobile application enables taxpayers to access various ZRA e-services all on mobile devices—including TPINs and tax type registration or deregistration, return filing, tax payments, and tax education, and to search for a Customs bill of entry.
TaxOnphone	A text-messaging option targeting unregistered small and medium taxpayers operating small businesses, and taxpayers who may not have access to computers.
Electronic Customs Bonds (e-Bonds) return filing	To enhance efficiency in bonds management and ultimately improve data quality and integrity, increase compliance, and improve customer experience and also foster open collaboration among the three parties of the bond contract.
Bulk Intelligence Data Analytics (BIDA) system	Automates data crossmatching, with the capability of identifying inactive and duplicate taxpayers.

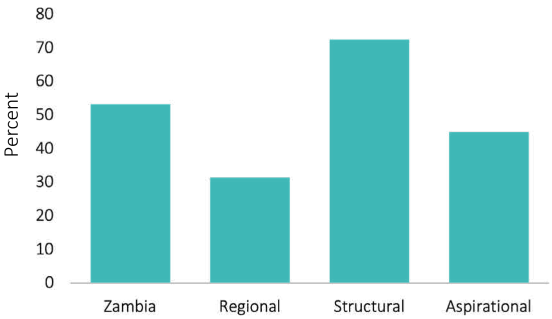
Source: ZRA.

These administrative challenges are holding back the productivity of tax instruments and the result is an inefficient tax system. Although Zambia's collection efficiency stands tall within the region for all tax instruments, it is well below structural peers. The VAT C-efficiency averaged 50 percent between 2015 and 2022, which compares poorly to the 90 percent for structural peers (Figure 16). Several practices, such as VAT exemptions, have dented what would have otherwise been an effective tax collection system.[18] Similarly, while PIT productivity is estimated at 13.6 percent, well above all peers, CIT is only 7.1 percent, lower than the regional average of 7.2 percent and well below the 17.1 percent for structural peers (Figure 17).[19]

[18] The C-efficiency ratio is an indicator of performance and efficiency of a tax system. It is estimated as the ratio of the revenue collected as a share of what would be collected with a standard rate (i.e., product of standard rate and consumption).
[19] Corporate income tax productivity is calculated as the ratio of CIT revenue (as a percentage of GDP) to the CIT rate. Personal income tax productivity is computed as the ratio of PIT revenue (as a percentage of GDP) to the top marginal PIT rate.

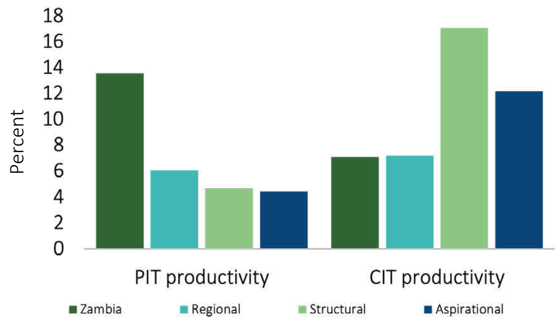
Zambia collects less revenue than it could with standard rates

Figure 16: VAT C-efficiency (percent), 2015-2020



Source: World Bank staff estimates

Figure 17: Income tax productivity (percent), 2015-2020



Source: World Bank staff estimates

A generous incentive regime has reduced the burden on investment imposed by Zambia's tax system and the burden decreases as incomes increase, given negative marginal effective rates. The Zambian Government offers extensive incentives through almost all its tax instruments to attract investment to priority sectors including manufacturing, construction and infrastructure development, energy and water, and mining.[20] The overall effective average tax rate over 2010-2020 was 25.3 percent, slightly lower than aspirational peers, which stood at 26.7 percent (Figure 18). However, the marginal effective tax rate was negative, especially on equipment (Figure 19), reflecting the heavy tax incentives offered to investors (critically in capital-intensive mining). This implies that, on the margin, Zambian taxpayers have received a net subsidy induced by tax credits, deductions, or other forms of tax expenditures, instead of paying additional taxes on an extra unit of income or profit.

While Zambia's average effective tax rates are similar to peers, its marginal tax rate is negative, suggesting generous tax expenditures

Figure 18: Effective average tax rates (percent), 2010-2020

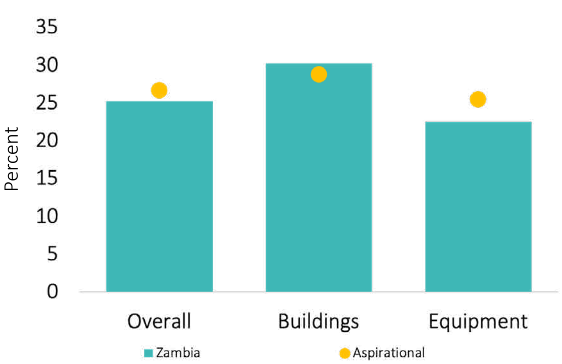
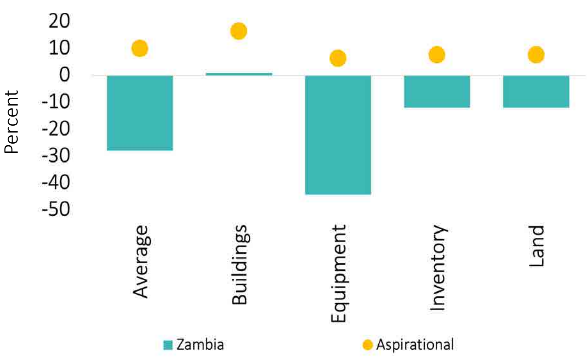


Figure 19: Average marginal effective tax rates, (percent), 2010-2020



Source: World Bank staff estimates.
Note: Due to lack of full data on regional and structural peers, comparison is limited to aspirational peers.

[20] These include customs duty exemptions, reduced corporate income rates and accelerated depreciation for 10 years for enterprises operating in the Multi Facility Economic Zone (MFEZ) or industrial park, and excise duty exemption.

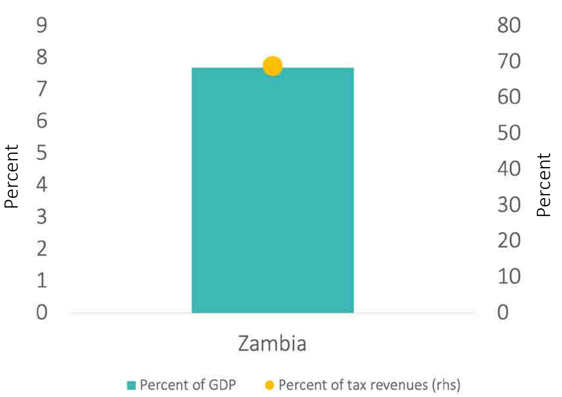
Tax incentives have eroded revenues and hence been costly to the fiscus. According to customs data, revenue losses averaged 2.2 percent of GDP between 2013 and 2019, before jumping to 4.2 percent by 2021. The overall impact of tax expenditures across all tax heads on the fiscus could be enormous and hence calls for an in-depth cost-benefit assessment of these various incentives vis-à-vis their erosion of fiscal sustainability. There are tradeoffs between seeking to attract investment and the opportunity cost of foregoing revenue in doing so, especially if these tax expenditures are unsuccessful at generating economic growth. Under a USAID-funded technical assistance project, MoFNP is analyzing tax expenditures and their growth impacts. Findings from this study will be critical in addressing policy questions regarding tax impacts.[21]

Zambia's tax system is progressive overall, but its redistribution and growth-enhancing role could be expanded

Zambia's tax system remains progressive, imposing a smaller burden on the poor. Based on the Kakwani Index (0.33), Zambia's tax system is fairly progressive, mainly attributed to direct taxes—with income taxes dominating revenues.[22] While still a small share of GDP, direct taxes accounted for almost 70 percent of revenues over the ten years to 2022 (Figure 20). This has allowed higher-income individuals to pay a larger proportion of their income in taxes than lower-income individuals. As Zambia expands indirect taxes like its VAT system, it would need to avoid increasing VAT on basic consumption goods that usually represent a significant portion of poor households' income.

Zambia's reliance on direct taxes makes its tax system fairly progressive, but it could be more pro-poor

Figure 20: Direct tax revenues (2013-2022) (percent of GDP/percent of tax revenues)



Source: GFS.
Note: Includes corporate and personal income taxes and property taxes.

Figure 21: Kakwani and Renolds-Smolensky indexes (2010-2020)

Source: World Bank staff estimates.

[21] Revenue for Growth Project, USAID, https://www.usaid.gov/sites/default/files/2022-05/Final_-_USAID_Revenue_for_Growth_Activity_Fact_Sheet.docx.pdf.

[22] The Kakwani (1977) Index measures tax progressivity and is calculated as the ratio of twice the area between concentration curves of taxes and pre-tax income.

However, Zambia's tax system appears to have less ability to redistribute income than peers, and it could be impacting economic competitiveness. Zambia's Reynolds-Smolensky Index stands at 1.8 percent, far lower than the 2.8 percent for regional peers (Figure 21), suggesting a smaller redistributive impact or less ability to reduce inequality than peers.[23] This higher score speaks to Zambia's undiversified mining economy and fiscally supported rainfed subsistence agriculture, both of which have little redistributive impact. Fiscal incidence analysis is ongoing to understand the equity effects of the tax system in Zambia.[24] In addition, the negative marginal effective tax rate discussed in the sections above points at significant tax expenditures. The authorities' reliance on tax expenditures reflects the constrained fiscal space, preventing them from using more transparent revenue or spending policies.

1.3 EXPENDITURE

Broad drivers of public spending

Public investment-driven expenditure growth faltered when COVID-19 hit and Zambia defaulted on its sovereign debt, leading to a contraction, albeit below regional peers

Government expenditure grew strongly during the pre-COVID decade and today remains above SSA averages despite recent declines. Following persistent growth that started in 2013, total government spending peaked at 31.1 percent of GDP in 2020 at the height of the COVID-19 crisis (Figure 22), before declining as the pandemic receded. Capital expenditure dominated these trends, driven by massive investment in roads. Public spending has declined since 2021, reflecting financing constraints in the aftermath of the external debt default and the government's bold fiscal consolidation reforms under the current IMF program. Still, overall spending as a share of GDP has persistently exceeded SSA averages. Zambia has been spending well above its revenue effort and is above average in per capita GDP terms compared to peers (Figure 24 and Figure 25).

[23] The Renolds-Smolensky Index measures the redistributive effect of a tax policy and is calculated by comparing the difference between the Gini coefficients before and after taxation and transfers.

[24] Zambia Poverty Programmatic Advisory Services and Analytics (World Bank, 2024).

Driven by public investment, government spending in Zambia had been growing until COVID-19 hit, but contracted following compounding shocks starting in 2020...

Figure 22: Government expenditures as percent of GDP

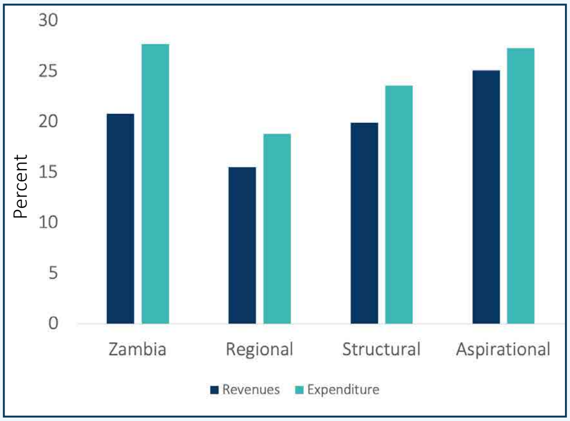
Source: Authors, from MoFNP and WDI data.

Figure 23: Drivers of expenditure growth

Source: Authors, from MoFNP data.

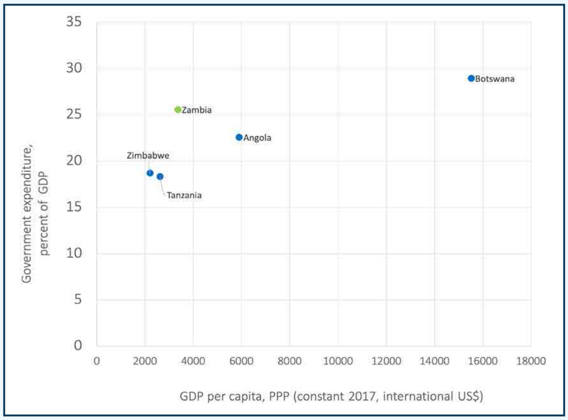
...in per capita terms, average spending is well above countries at similar levels of income

Figure 24: Government revenue and expenditure – Zambia and peers (percent of GDP), 2020-2022



Source: MoFNP and WDI.

Figure 25: Government expenditure and per capita income – Zambia and peers, 2022



Source: MoFNP, WDI, and WEO.

In tandem with the investment drive in the 2010s, capital spending rose sharply (reaching 32 percent of total spending by 2019), but compounding shocks saw it fall from 2020 onwards (to 13.5 percent in 2022). Capital spending associated with the vast infrastructure drive under the previous administration was the main factor behind the growth of spending between 2015 and 2019 (Figure 23). This trend saw a dramatic reversal during and after the COVID-19 crisis, as capital spending was initially cut to generate fiscal space for the pandemic response, and then in recent years to contain spending as part of fiscal consolidation. Recurrent spending also increased, but much more slowly. However, recurrent spending consumes most government resources, averaging around 80 percent of total expenditure over the last decade. As a percentage of GDP, Zambia's recurrent spending averaged 20 percent over this period, more than three times the value of capital investments in GDP.

Composition of expenditure by economic classification

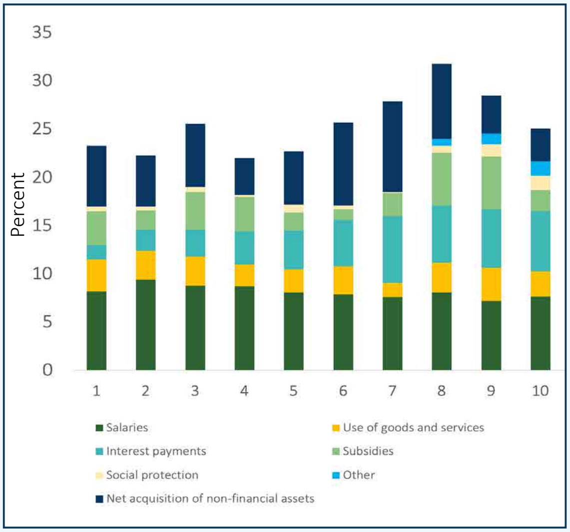
The construction sector—notably road infrastructure—drove the expansion in capital spending, while the wage bill dominated recurrent spending but remained stable, thanks to a wage and hiring freeze

Acquisitions of physical capital dominated spending growth in the three years leading up to the COVID-19 crisis, more than doubling as a share of total spending, from 29 to 65 percent. The main driver of this growth in non-financial assets was GRZ's road construction program which commenced in 2015, ambitiously seeking to upgrade 40,454 km of its 67,671 km core road network and transform Zambia into a land-linked economic hub. Under this program, government initiated three mega projects—Link Zambia 8000, Pave Zambia 2000, and Lusaka 400—aiming to interlink outlying areas, improve transit times, reduce road user costs, create opportunities for youth employment, and drive inclusive economic growth. By 2019, the program had upgraded, rehabilitated, and maintained 20,888 km of road.[25] In 2015 alone, a quarter of total expenditure went to constructing public roads. Other than road infrastructure, the investment program focused on information and communications technology, agriculture, water and sanitation, and tourism. Spending on net acquisition of non-financial assets had doubled to an average of 8.3 percent of GDP over 2018-2020, compared to pre-2015 levels (Figure 26), well above peers. By 2022, following adjustments to support its fiscal consolidation agenda, Zambia's spending on acquisition of non-financial assets fell below the SSA average (Figure 28).

[25] The government also introduced the national road tolling program to help generate funds for road works.

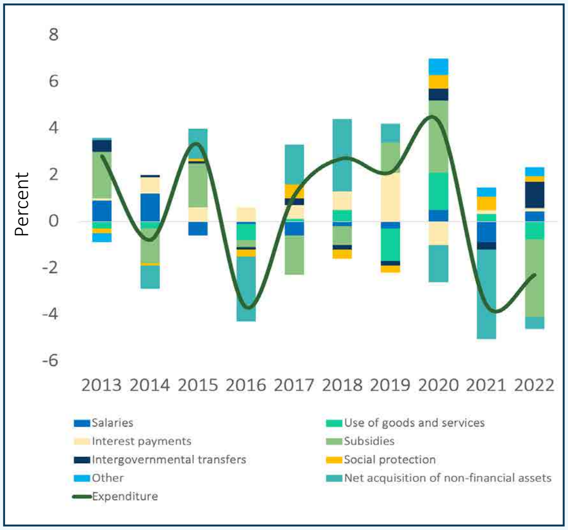
Debt-financed infrastructure dominated expenditure growth (with associated increases in interest payments), while the wage bill consumed a large share of recurrent spending, though well below SSA peers in 2022

Figure 26: Zambia – Economic classification of public expenditure (percent of GDP) (2011-2022)



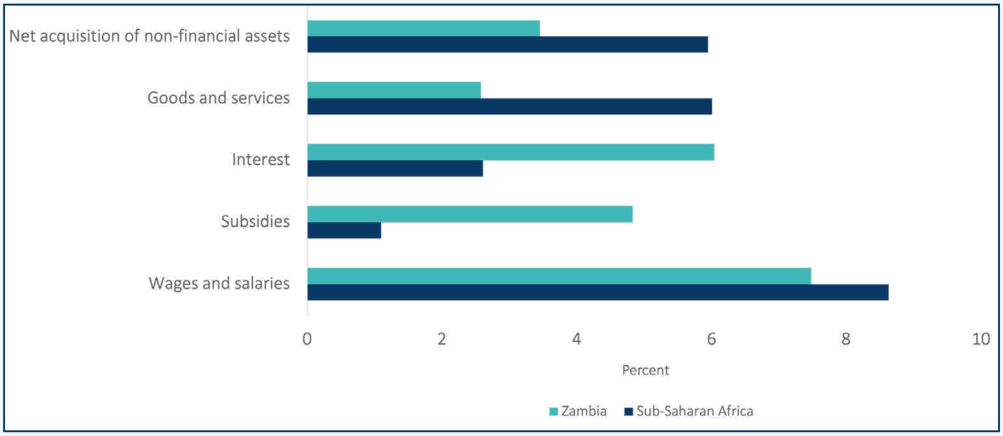
Source: WEO.

Figure 27: Change in public expenditure by economic classification (percent) (2013-2022)



Source: WEO.

Figure 28: Zambia versus SSA – Economic classification of public expenditure (percent of GDP) (2022)



Source: WDI and MoFNP.

While declining in the period leading up to 2019, public sector wages and salaries dominate recurrent expenditures (Figure 26). Spending on salaries and wages reached 9.2 percent of GDP in 2014, before maintaining a downward trend as the government implemented a wage and hiring freeze in the subsequent two years. This policy sought to control public sector wage bill growth and keep spending within 8 percent of GDP. As a result, the wage bill averaged 7.7 percent of GDP for the three pre-COVID years to 2019, and its spending share dropped from 47 percent to 40 percent, offsetting a rapid increase in interest payments on debt-financed infrastructure projects. Whereas the nominal wage bill increased again in response to the COVID-19 crisis, its share in total spending dropped to a decade-low of 32.4 percent in 2021. It bounced back in the subsequent year as the government embarked on a recruitment drive for the education and health sectors (see next section). Still, at 7.5 percent of GDP in 2022, the public wage bill in Zambia is below the SSA average by more than one whole percentage point (Figure 28). Transfers and subsidies spiked significantly on account of the COVID-19 pandemic response and have remained above pre-pandemic levels.

Composition of expenditure by functional classification

The vast public investment drive in the second half of the 2010s, focused on transport infrastructure, dented social sector spending, damaging service delivery and outcomes

The functional composition of spending reveals the government's weakening focus on social sectors until 2021 (Figure 29). According to data on budget execution from the Accounting General's Office (AGO), between 2013 and 2019, the government directed just under 25 percent of its resources to programs involving social services, including health, education, and social protection (Figure 29).[26] This share has reduced by almost five percentage points over the last three years, as resources allocated to the economic sector increased (including works and transport, energy, and water). Zambia's health expenditure averaged 8.9 percent of the total budget during 2015 to 2021, lagging behind its regional and international commitments. Budgetary allocations to social protection and jobs increased between 2014-2021, but financial sustainability was a concern as budget allocations went unmet and pension funds performed poorly.[27] While infrastructure has rightly been identified as a strategic goal in the 7th and 8th NDPs to support industrialization, boost exports, and strengthen budgetary revenues, these spending trends have had negative consequences for service delivery, compounded by the shocks that began in 2020.

Education and health service delivery and outcomes suffered as a result. Between 2014 and 2019, basic education enrolment rates fell.[28] The inadequate number and inequitable distribution of teachers, poor school infrastructure and lack of textbooks contributed to poor quality learning environments and low learning outcomes. In the health sector, the latest public expenditure tracking and quantitative service delivery survey found that stock-outs of drugs and vaccines were persistent and that there were significant shortages of human resources due to absenteeism and tardiness amongst the available health workers.[29] While the number of health facilities has increased, physical access to health facilities, particularly in rural areas is still a challenge.[30]

[26] This relies on the Integrated Financial Management System (IFMIS) data, which often excludes externally funded activities and projects.
[27] World Bank and UNICEF (2021).
[28] World Bank (2022).
[29] World Bank (2019).
[30] Idem.

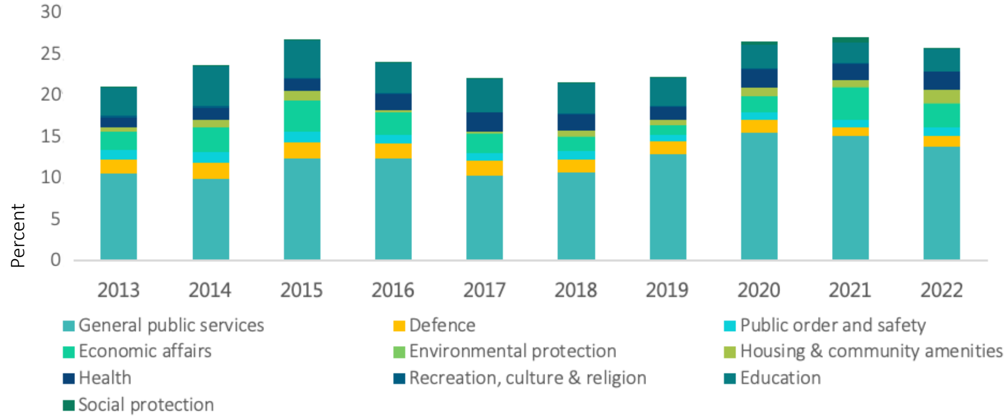
More recently, the authorities have prioritized and protected social sector spending, including at subnational level, but data on the effects of this increase is not yet available

The GRZ is accelerating social sector reforms, having recognized the impact on the most vulnerable of COVID-19, runaway inflation and the ensuing cost-of-living crisis, and a recent severe drought. It has initiated steps to safeguard financing for social protection, health, and education, as well as local development spending to mitigate social risks from the compounding shocks and fiscal consolidation. The measures have included scaling up the number of beneficiaries and transfer value of the social cash transfer program, introducing free education for all in public primary and secondary schools, increasing disbursement to public pension schemes, and expanding the allocations and disbursements to the education and health sectors. Significant recruitment drives seek to support health provision and education enrolment while enhancing access and quality. In addition, the authorities have committed to a minimum floor on social spending under the ongoing IMF program. While these policies have seen the allocation of public funds increase in 2022, they remain below pre-pandemic levels and the SSA regional average, and their impact is not yet known.

The government has also significantly increased budgetary allocations to the subnational Constituency Development Fund (CDF). The budget for this fund increased from ZMW 0.2 billion (USD 7.7 million) in 2021 to ZMW 4.0 billion (USD 153.2 million) in 2023, with the proposed 2024 allocation further increasing to ZMW 4.8 billion (USD 183.8 million). It is also scaling up capacities to improve local development planning and strengthen resource absorption by the 156 constituencies (Chapter 2). There is little information available so far on the impact of the subnational transfers on local communities.

Social spending contracted prior to the COVID-19 pandemic but is being prioritized again

Figure 29: Functional classification of public expenditure (percent of GDP)



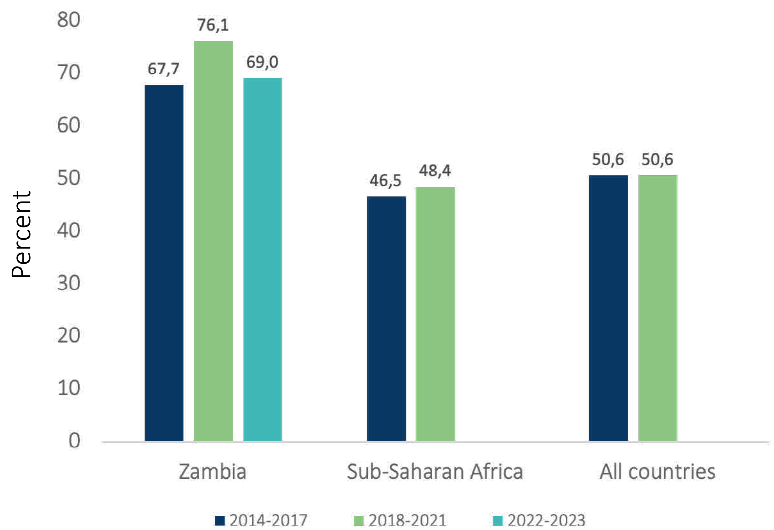
Source: AGO.

Budget rigidity

A highly rigid budget structure may have limited Zambia's flexibility and ability to adjust fiscal policy in the short term. Over the last decade, the share of non-discretionary spending averaged 71 percent, implying limited flexibility to adjust fiscal policy. This share has fallen over the past two years as the authorities used discretionary spending to address compounding shocks. While differences in country-specific characteristics and budget structures could complicate comparison across countries, regional peers have much less budget rigidity. The implementation of fiscal policy does not always encounter comparable challenges across different nations, as certain rigidities may be more readily addressed within the unique legal and institutional frameworks of a specific country. For instance, between 2014 and 2021, Zambia exhibited a higher degree of estimated fiscal rigidity than its peers in SSA, where the average rigidity was 48 percent. This is also true when considering all countries for which relevant data is accessible (Figure 30). Such rigidities deepen expense inertia in the budget, limiting the ability to reprioritize spending.

Zambia's share of budget items categorized as rigid is significantly higher than comparators, limiting short-term adjustments to spending

Figure 30: Fiscal rigidity: Zambia's share of non-discretionary spending in comparison with other regions (percent)



Source: MoFNP.
Note: 2022-23 data is not available for comparators.

1.3.1 Budget Execution Challenges

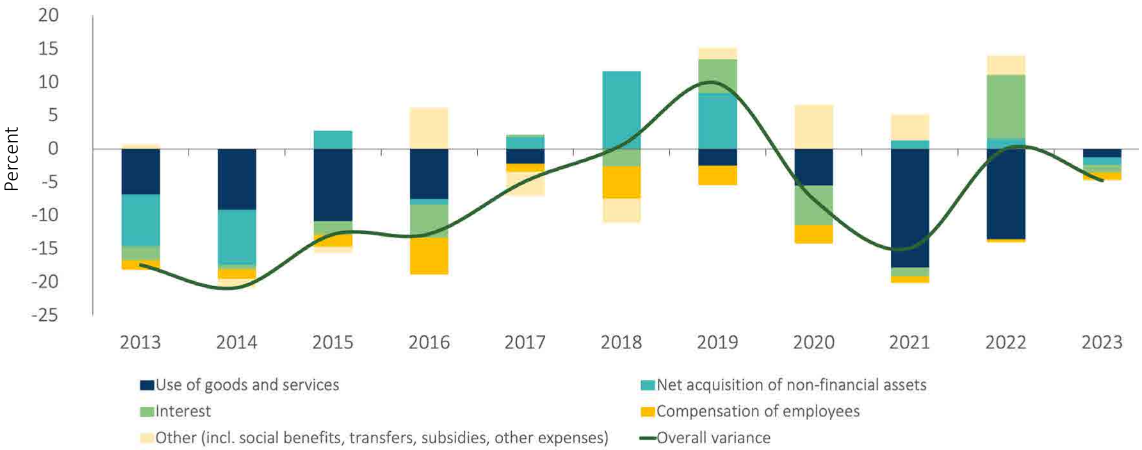
Zambia exhibits weak budget credibility; after accounting for regular supplementary budgets, budget execution for goods and public investment, both externally or internally funded, deviates significantly, indicating project implementation challenges

Zambia's public spending has been inefficient, with a history of poor execution, especially expenditures on goods and services and externally financed projects. Official economic reports suggest overspending, but this overlooks the significant role of supplementary budgets approved by parliament during the year. Actual spending often falls short of these adjusted budgets, with a 21 percent shortfall in 2014, which was reversed by 2019, before falling back to a 15 percent shortfall by 2021. The use of goods and services has largely driven this discrepancy (Figure 31). Despite these overall trends, specific spending categories and sectors face unique challenges. For instance, while government-funded projects exceeded their budget over the period 2020 to 2023, externally funded projects underperformed, with a 38 percent average shortfall between 2021 and 2023. This means that for every USD 100 million allocated, only USD 62 million were effectively used to build the productive capacity of Zambia's economy. Additionally, under-execution in statutory obligations like employee compensation undermines budget credibility.

Challenges also exist within government-funded activities, critically the public investment budget, underscoring weak implementation capacity. According to the budget data from the AGO, which allows analysis by functional classification but excludes some externally funded projects, there has been a deterioration in budget execution across all sectors, with the economic affairs, environmental protection and social protection sectors worst hit. By 2019, only 43 percent, 41 percent and 25 percent of every kwacha budgeted was spent in these sectors respectively. These developments occurred as the government implemented its large infrastructure program, driven by a few major projects. Only the education sector was able to improve execution levels. While budget performance declined further in 2020, likely on account of COVID-19-induced lockdowns which subdued government activity, it has since improved as the authorities seek to use all available public resources in the current context of fiscal consolidation and debt restructuring.

The government typically under-executes its spending envelope, weakening budget credibility

Figure 31: Budget execution by economic classification and variance (2013-2023)



Source: Authors, from MoFNP and AGO data.
Note: Budget numbers published in the Yellow Book have been adjusted with supplementary spending data from the Accountant General's Office.

Serious data availability and classification issues constrain a deeper assessment of the execution challenges. The variance between budget and expenditure could depend on several factors, including shortfalls in revenues (especially if the government is running a strict cash budget), MoFNP's inability to release funds quickly, and the absorptive capacity of spending ministries, which will determine how efficiently (in terms of time and purpose) the released funds are used. Prior to 2018, revenue shortfalls partly contributed to the under-execution on the spending side, but that has not been the case in recent years where revenues have generally overperformed. Nonetheless, good forecasts of revenue and actualization can improve efficiency on the spending side. In addition, budget estimates must represent accurate projections of sector requirements, and ministries, provinces, and agencies need to adhere to the legal framework and enforce the constitutional provisions on funding. Finally, improved expertise is needed for officers to accurately code and record spending on the Integrated Financial Management Information System (IFMIS) to maximize its potential for decision making (Chapter 2).

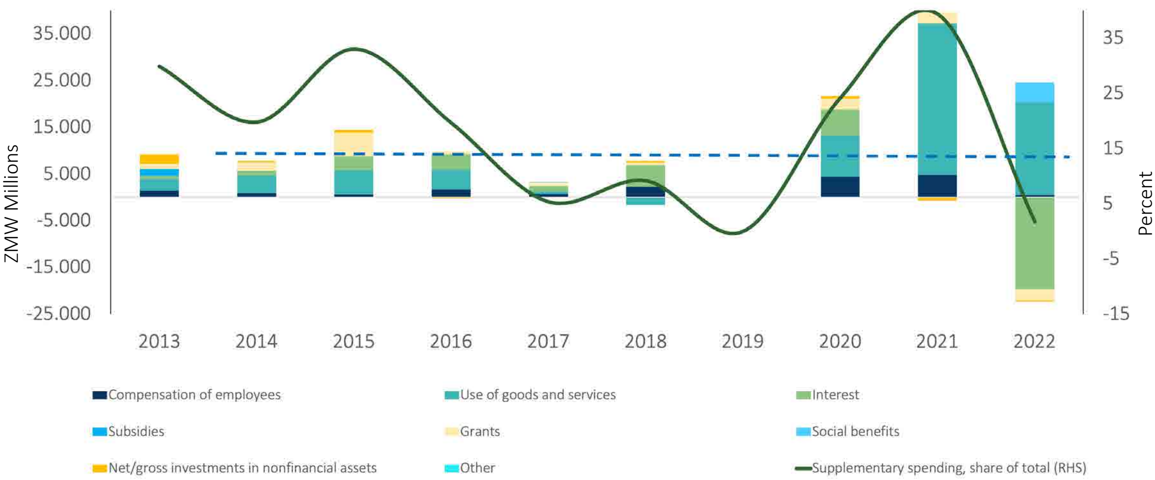
Supplementary budgets often do not meet the legal criteria of being unforeseeable and unavoidable, and domestic arrears are still generated, undermining both budget management and credibility

Frequent supplementary budgets in Zambia suggest issues with the budget formulation process, affecting fiscal management and accountability. These supplementary budgets, permitted by the Public Finance Management Act of 2018, are indicatively capped by the government at 15 percent of the main budget. Although supplementary budgeting decreased after 2018, it surged in 2020 due to COVID-19 and continued to rise in 2021, mainly for public services and salaries (Figure 32). However, much of this spending does not meet the legal criteria of being unforeseeable and unavoidable, challenging the integrity of annual budget plans. For example, in 2021, 83 percent of the extra ZMW 32 billion (USD 1.2 billion) funded goods and services, while ZMW 5 billion (USD

0.19 billion) covered wage deficits. This practice not only questions budget credibility, but also causes significant resource reallocation among sectors, affecting fund distribution. Additionally, the ad hoc and often late preparation of supplementary estimates, outside of a mid-year review, undermines financial transparency and accountability.

In-year supplementary budgets, usually exceeding the 15 percent cap, challenge the integrity of annual budget plans

Figure 32: Drivers of supplementary spending (ZMW million and percentage share of total)



Source: Compiled by World Bank staff from MoFNP and AG's office data.

Budget execution challenges also include the long-standing problem of expenditure arrears in Zambia. GRZ faces a historical backlog of expenditure arrears, which had reached almost 13 percent of GDP in 2020. They were reduced drastically in 2022—by the equivalent of 3 percentage points of GDP— to 9.6 percent of GDP at year end. Still, poor monitoring systems weaken arrears management. More recently, notable increases in arrears were recorded for VAT and other recurrent departmental charges, mainly owing to stock revaluations following an ongoing audit process and accumulation of late penalties and interest. However, the authorities are making significant arrears reductions in personnel emoluments, fuel, electricity, FISP, FRA, pensions, and capital projects. In the recent second review of the IMF's ECF, the authorities missed an indicative trigger on clearance of expenditure and VAT refund arrears, as VAT claims outstripped the pace of their clearance.[31] Domestic arrears are rapidly accumulating interest and are hence costly for government, while also stifling private sector growth. Therefore, any upside on revenues should be saved or used to clear arrears. In August 2022, the authorities published a strategy for clearing expenditure and VAT arrears over 10 years and are strengthening systems to prevent spending arrears from re-emerging.

[31] IMF (2023b).

1.3.2 Growth and Poverty Outcomes

Despite significant real public spending growth and large infrastructure investments, modest economic growth in the past ten years suggests low multiplier effects of public spending, as shown by slow progress in access to electricity, roads and water and sanitation

Elevated public spending has yielded limited impact on growth over the past decade, underscoring PIM challenges. While real public expenditures grew at an average of 6 percent annually from 2014 to 2022 (9 percent for public investment), real GDP growth was just 2.6 percent (Figure 33). Real GDP growth reflected mining trends more than construction supported by the infrastructure program. The limited impact of heavy public expenditure on growth suggests a small and short-lived multiplier effect of public spending. The massive real investment expansions in 2015, 2017, and 2018 did not support real economic growth, even with two-year lags. Meanwhile, real public investment contracted significantly in 2021, resulting from the authorities focusing on the COVID-19 response (which crowded out investment) and limited fiscal space following the ensuing debt crisis. Still, growth in 2022 and 2023 has proved resilient following these investment cuts, driven by non-mining and non-agriculture sectors. While these sectors are less capital-dependent, this trend again suggests that public investment does not substantially affect economic growth. PIM weaknesses in project appraisal and selection, as well as inefficiencies in implementing and operating projects, likely constrain fiscal multipliers (Chapter 2). Structural challenges, weather shocks, and global volatility in copper prices have further compounded the sub-par multiplier effects of fiscal policy.

Despite massive investment in roads, widespread infrastructure gaps persist—including a dilapidated core road network—which severely impacts economic activity and access to social amenities. Infrastructure services in Zambia grapple with weak accessibility, quality, and resilience. The vital link between the rural economy and the more prosperous urban centers is curtailed by substantial infrastructure deficits, especially energy, transport, communications, water, sanitation, health, and education. The overall national electricity access, at 42 percent, is well below the average for SSA, and far worse for rural areas (just 12 percent). The share of rural Zambians living near an all-season road varies from 3.4 to 56.2 percent, with the national average standing at a meagre 17 percent. Low rural road access impedes agricultural production in many areas of the country, as farmers and agribusinesses face inadequate market access. Additionally, access to safe water and sanitation services remains critically low in Zambia, with only 63 percent of the population having access to safe water and 43 percent to adequate sanitation facilities.

Fiscal policy has apparently acted against the economic cycle, thus helping to achieve its stabilization function, but to a limited extent; its incidence on the most vulnerable requires further analysis

Zambia's expenditure policy seems to have been counter-cyclical, hence contributing a stabilizing effect, although with minimum success. Annual changes in the cyclical components of several spending elements—notably capital investments and transfers and subsidies—have correlated negatively with GDP (Figure 34). Accordingly, expenditure changes in these items should have stabilized fluctuations driven by the business cycle to a certain extent and contributed to bringing output closer to potential. However, economic growth has remained subdued. Separately, spending on the use of goods and services is positively aligned with the business cycle. The correlation of staff emoluments with GDP was almost zero, which may suggest that stronger economic performance did not drive public service hiring or salary schedule modifications.

Expansionary and counter-cyclical fiscal policies in the 2010s did not support medium-term growth

Figure 33: Real public expenditure and GDP growth

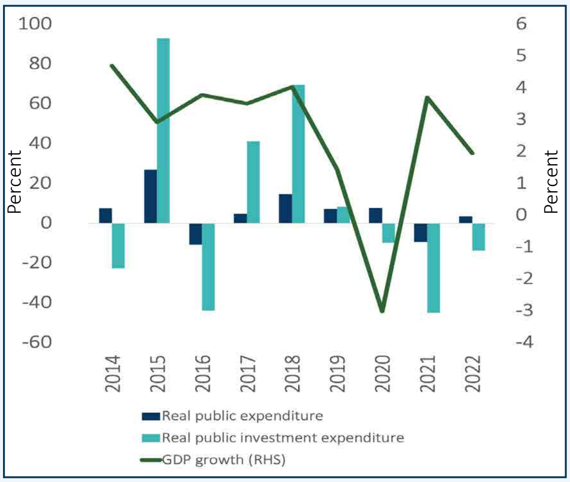


Figure 34: Cyclical components of total expenditure and GDP (constant ZMW million)

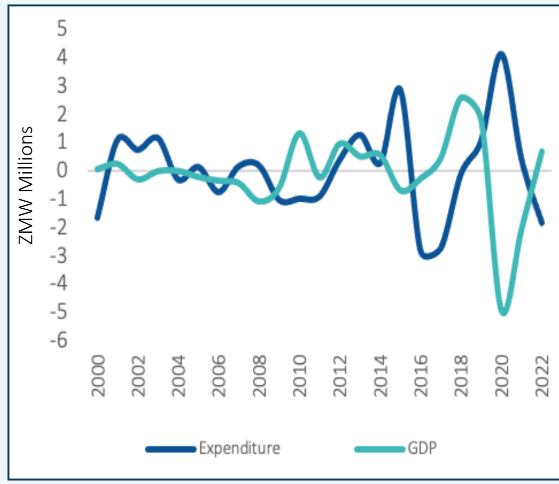


Figure 35: Zambia: Correlation between public expenditure and GDP, 2000-2022

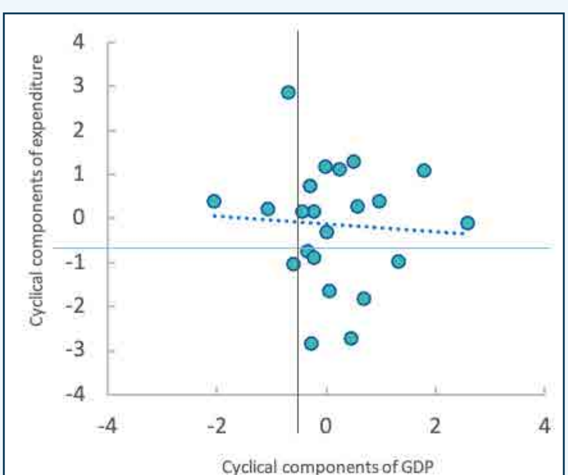
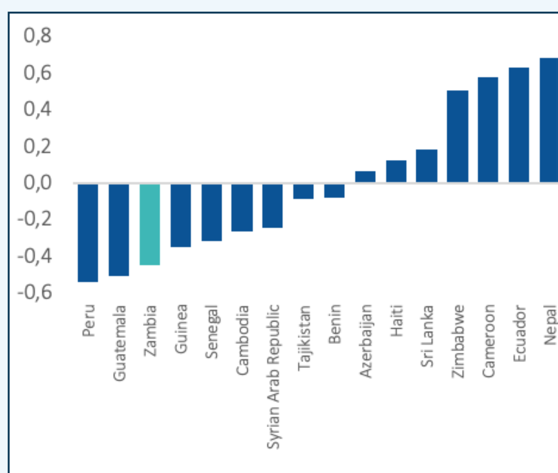


Figure 36: Correlation between real GDP and public spending cyclical components – Zambia and comparators, 2000-2022



Source: World Bank staff estimates.

Data shows that education and health spending has not been equitable. Typically, social sector policies redistribute wealth from richer to poorer segments of the population. However, in Zambia the likelihood of being out of school or over age is highest for those children in the poorest provinces in Zambia and, likewise, for children from households in the poorest quintiles of the income distribution.[32] Further, while health benefit inequities reduced between 2010 and 2015, the share of benefits received by the richest 20 percent of the population were higher than their health needs in both 2010 and 2015. Out-of-pocket health expenditures were found to be highly regressive during the same period, and the catastrophic share of health expenditures increased particularly for the poor.[33] Considering the recent declines in social sector spending over 2020-22, substantial tax expenditures to attract investment, and rising poverty levels, fiscal spending may not have been pro-poor overall.

More recently, growing social sector budgets suggest greater pro-poor spending. In 2022, the government introduced the "Education for All" policy which abolished all formal and informal fees in general education (pre-primary, primary, and both lower and upper secondary levels), with fees replaced by compensatory increases in grants to schools. The government has also increased the share of education budget from 10.4 percent in 2022 to 15.4 percent in 2024. As a result, equitable access to education is expected to improve. There is also a recruitment drive for teaching and health staff, as well as investments in school infrastructure, hospitals, equipment, and drugs. The number of households receiving the social cash transfer and the amount paid has increased progressively since 2022, although high inflation has prevented real growth. However, further analysis is needed to determine the fiscal incidence of revenue and spending in Zambia.

1.4 RECOMMENDATIONS AND FISCAL SUSTAINABILITY IMPLICATIONS

1.4.1 Recommendations

Several revenue-enhancing measures, alongside improvements in expenditure efficiency and effectiveness, can be identified from the preceding public finance overview.

Promoting revenue mobilization

- *Strengthen the VAT instrument and its administration to maximize its potential*. Review the current VAT regime to make it more productive, including reviewing the current VAT rate to align it with other SSA regional peer countries. However, a deliberate effort should be made to avoid increasing VAT on basic consumption goods that usually represent a significant portion of poor households' income as this could be regressive. On the administrative side, accelerate the rollout of the e-VAT system and enhance timely management of VAT refunds, with upsides on revenues used to clear arrears on the refunds.

- *Strengthen the governance of tax expenditures to minimize fiscal costs vis-à-vis the economic competitiveness impacts.* Adopt a tax expenditure fiscal governance framework that requires an assessment of the costs and benefits of seeking to attract investment through trade competitiveness and the opportunity cost of foregoing revenue, and includes clear criteria and an appraisal process for new tax expenditures and exiting old ones. Publish a tax expenditure report, including their impacts in terms of effective tax rates, and monitor impacts throughout their life cycle.

[32] World Bank (2022).
[33] World Bank and UKAid (2016).

- *Maximize and stabilize resource revenues over the business cycle.* Review the competitiveness of the mineral fiscal regime and the state participation model in mining ventures to maximize revenue collection while inducing mining investments. This will be critical to ensure Zambia maximizes the unique potential of its green minerals, while contributing to the global energy transition. Establish a stabilization fund to build fiscal buffers for downsides and smooth spending over commodity super cycles.

- *Modernize and enforce revenue collection.* Advance revenue administration digitalization, including through ongoing linkages with the IFMIS and the land registration database. Following the review of tax expenditures, fully tap the potential of non-resource tax bases. Address inaccuracies in the taxpayer register to improve its credibility, strengthen on-time filing rates for core taxes, and develop a framework for managing tax arrears to minimize further accumulation.

Strengthening budgeting and spending efficiency

- *Improve allocative efficiency by calibrating spending towards priority areas while maintaining fiscal sustainability.* The need to preserve social spending and selectively allocate funds to productive infrastructure while keeping public finances sustainable brings efficiency implications to the fore. Post-debt restructuring, financing constraints will continue, requiring better efficiency in public spending.

- *Strengthen budget planning and credibility*. Enhance budget estimates so that they represent accurate projections of sector requirements, avoiding unnecessary budget supplements. Budget execution rates must improve, particularly investment spending. Ensuring all spending is executed within the IFMIS, and with a commitment control system, will improve control and reduce the scope for extra-budgetary arrears. Implement multi-year budgeting for projects through improved PIM processes (Chapter 2).

- *Maximize concessional sources of financing and enhance debt management.* Immediately following debt restructuring, continue to maximize concessional sources of financing as Zambia will remain shut out of international capital markets. Improve domestic debt management by swiftly adopting and implementing regulations to the Public Debt Management Act, governing the management of the sinking fund, clarifying the nature and scope of guarantees and indemnities, establishing the general provisions of the debt management office, defining the credit risk assessment framework, and setting the framework for regulating SOEs (Chapter 3).

Leveraging data for fiscal policy management

- *Improve fiscal data availability and use.* To ensure evidence-based fiscal policy management, the government needs to improve fiscal data availability and transparency. Zambia needs to adopt systems that allow easier access, cross-validation from different sources, and utilization of budget data. This includes systems supported by the World Bank, such as Open Data and the BOOST Open Budget Portal.[34]

[34] https://www.worldbank.org/en/programs/boost-portal.

1.4.2 Fiscal Sustainability Outcomes

Implementing these revenue and spending recommendations could help Zambia stay the course on fiscal consolidation, while enhancing fiscal sustainability and supporting developmental needs. This will be critical as the government continues to progress macro-fiscal and structural reforms under debt restructuring. A fiscal sustainability analysis undertaken to support the reform agenda models various policy scenarios to provide insights on how these budgetary adjustments could further strengthen fiscal sustainability (Table 2).

Under the baseline scenario, the ongoing fiscal consolidation and debt restructuring efforts stabilize the primary deficit at around 0.7 percent of GDP through 2028. The baseline assumes Zambia concludes debt restructuring under the Common Framework with a grace period over the medium term. It also assumes recovery in the mining sector from 2024, hence stimulating growth in industry, exports, and services activities. This anticipated improvement in production also envisages a less wet rainy season for open pit mining and the resolution of some longstanding challenges leading to the potential realization of significant foreign direct investment (FDI) pledges. Annual GDP growth accelerates to and stays at about 6 percent, resulting in an average of 5.3 percent over 2023-28.[35] The baseline scenario also features fiscal consolidation measures under the existing IMF program, which targets primary surpluses over the medium term. The fiscal deficit reduces to 3.8 percent of GDP, while the primary balance reaches a surplus of 2.0 percent by 2023 (Figure 37).

[35] Projections were calculated using the World Bank's macroeconomic and fiscal model (MFMod).

Table 2: Fiscal adjustment scenarios to strengthen fiscal sustainability

Scenario	Description
Baseline	Assumes conclusion of debt restructuring, and that recovery in the mining sector from 2024 onwards contributes to growth in industry, exports, and services activities which support production and greater FDI flows. Assumes the authorities implement planned fiscal consolidation reforms under the IMF program including targeted social spending.
Scenario 1: Enhanced revenue management and collection with a stabilization fund	Assumes revenue-promoting policy and administration measures, focusing on VAT reforms and the mining sector, including addressing leakages. Favorable commodity prices, increased profitability and investments in mining operations lead to higher output. Enhanced mineral resource management through stabilization fund to manage revenue volatility. Combined measures deliver revenue increases of 5 percent of baseline GDP by 2028, driven by increases in mining revenues (royalties and corporate income tax).
Scenario 2: PIM and SOE efficiency gains and spending reallocation	Assumes improvement in governance and efficiency, notably public investment management and SOEs. It further assumes that a share of resources saved through efficiency improvements are allocated to social services.
Scenario 3: Revenue and efficiency gains	Combines Scenarios 1 and 2.

Scenario 1 assumes the establishment of a stabilization fund that helps cushion the economy from large swings in commodity prices, and is supported by revenue enhancing measures and a strong mining sector, improving fiscal sustainability. A combination of policy and administrative measures targeting the mining sector, and VAT reforms to help close the large tax gap (Figure 14), leads to a rise in total revenues by up to 5 percent of baseline GDP by 2028 through higher mineral royalties and corporate income tax as commodity prices, profitability and investments in mining operations improve. Real GDP growth reaches 7.1 percent by 2028, while the real exchange rate is kept constant and does not include any overvaluation or Dutch disease effects. As a result, revenue as a percent of GDP rises to 25.7 percent by 2028, and the primary surplus reaches 6.0 percent (Figure 37). However, a drop in mineral royalties could cause revenues to fall to 20.3 percent of GDP by 2028 (Figure 38, bottom of the fan chart). A stabilization fund would help the government maintain funding for public services and investment during downturns such as lower international commodity prices, thereby contributing to overall economic stability.

Scenario 2 uses fiscal space that comes from increased efficiency in PIM and SOE investments to preserve and expand social sector spending. Improved fiscal governance and spending efficiency, backed by strong PIM processes and effective SOE management, lead to superior resource allocation in Scenario 2. These efforts, in addition to expenditure measures assumed in the baseline, such as targeting social spending and a cost-effective e-voucher system, save 2.5 percent of GDP every year between 2024-2028 (Figure 37). Most of these savings are spent on social sectors, especially education and health, as well as extra social benefits. By 2028, expenditures drop by 3.0 percent compared to the baseline and the primary balance reaches 2.6 percent. Given greater fiscal sustainability than the 2.0 percent primary balance in the baseline, Scenario 2 creates fiscal space to support priority social sectors. Moreover, increased investments in social sectors are expected to improve social indicators, boosting economic growth.

Scenario 3 (combining Scenarios 1 and 2) provides the most fiscally sustainable situation, while supporting investment in social sectors (Figure 40). Scenario 3 combines increased mining revenues supported by tax and non-tax collection reforms and favorable mining sector investments; strengthened fiscal governance in PIM and SOEs, resulting in greater spending efficiency; and budget re-allocation. These measures result in a revenue-enhancing environment and prudent and efficient spending, with the economy growing at a faster pace than assumed in Scenarios 1 or 2. Scenario 3 generates a primary surplus of 7.2 percent GDP by 2028.

Figure 37: Primary fiscal balance – Baseline, and Scenarios 1 and 2 (percent of GDP)

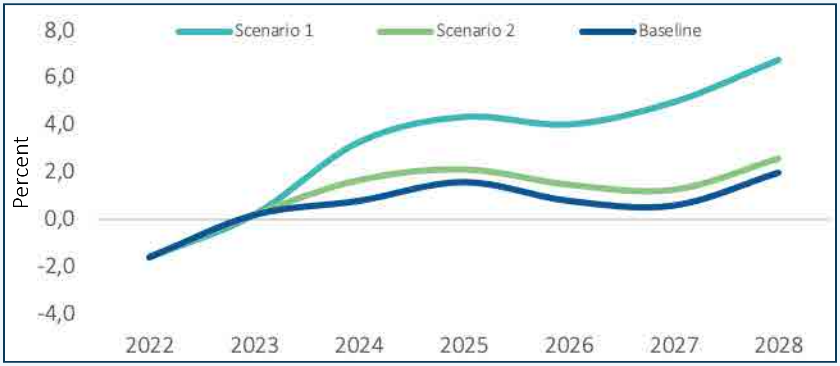


Figure 38: Scenario 1 – revenue fan chart (percent of GDP)

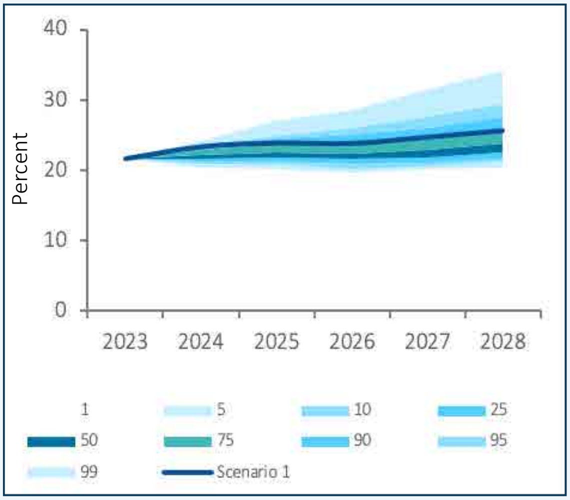


Figure 39: Scenario 2 – expenditure fan chart (percent of GDP)

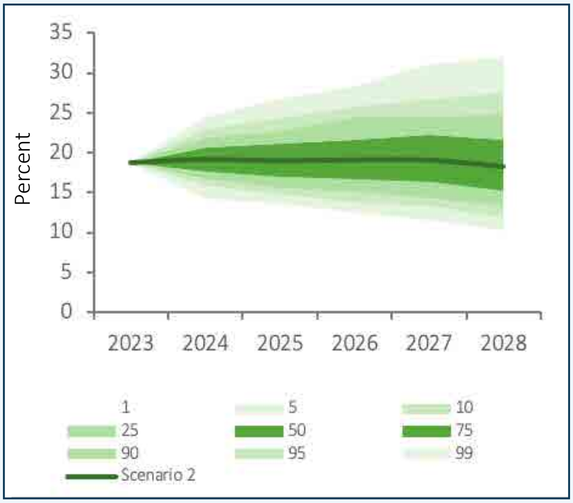


Figure 40: Scenario 3 – primary fiscal balance (percent of GDP)

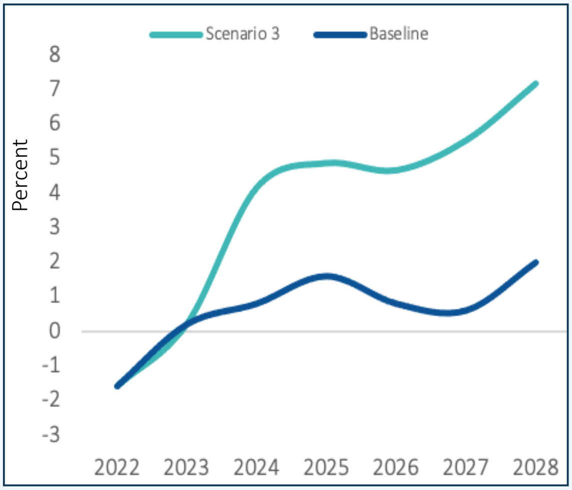
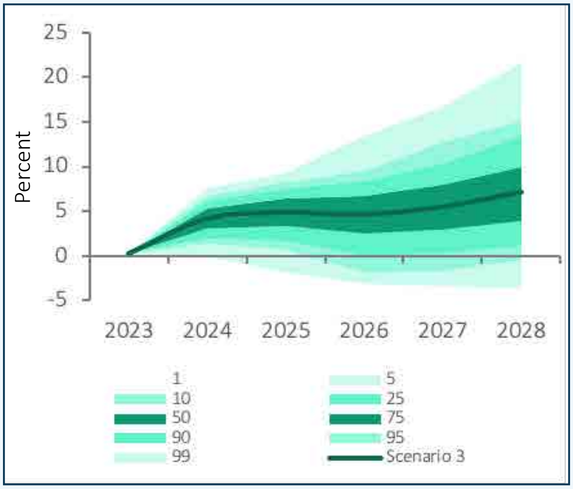


Figure 41: Scenario 3 – primary fiscal balance fan chart (percent of GDP)



Source: World Bank staff estimates.

CHAPTER 2
PUBLIC INVESTMENT MANAGEMENT

This chapter provides a PIM rapid assessment and discusses institutional challenges at the central government level that have contributed to preparing and implementing investment projects with sub-par economic returns. It focuses on data and information systems, budget practices, and center-of-government functions. It also discusses the local PIM system and its performance constraints. Due to weak project-level data availability, the report does not address investment efficiency and its link to public debt. Neither does it study alternative financing mechanisms for public investments. The chapter proposes several critical recommendations for implementing the transformative infrastructure needed to deliver the 8th National Development Plan while maintaining fiscal sustainability.

Main messages

Zambia faces significant shortcomings in its public investment management (PIM) data; these shortcomings have constrained the quantitative analysis of public investments for this PFR. The last decade, and the recent debt crisis and project rationalization process, have revealed the impact of weak PIM practices, with stalled and incomplete projects wasting resources, putting pressure on the budget and increasing public debt. To avoid a repetition, it is critical that Zambia strengthen its PIM framework and practices in order to fulfil the potential under the 8NDP.

A lack of project data has curtailed the capacity to assess the efficiency and effectiveness of public investments, and the link with public debt. The centralized repository for projects within the MoFNP is incomplete and under-utilized, which complicates tracking the project portfolio against funding allocations and national objectives. Project oversight and monitoring are critical to avoid cost overruns or unsustainable debt accumulation in the absence of contributions to economic growth and job creation. It is not possible to monitor project performance to assess whether projects are meeting proposal efficiency trajectories (such as unit cost for services) or how they individually contributed to the public debt build up.

The prioritization of projects entering the budget should be a shared responsibility between the Project Investment and Portfolio Department (PIPD) and the Budget Office (BO). The PIPD could expand its review function and—using the capital expenditure envelope provided by the BO for the five-year plan—work with ministries, provinces, and agencies (MPAs) to review, prioritize and approve new projects within that capital budget. The PIM Guidelines could be strengthened to ensure more robust and transparent assessment of new project proposals. The guidelines could require MPAs to provide full costings across the investment lifecycle, including operational and maintenance costs, and ensure that the PIPD examines how new investments meet governance criteria such as relevance, efficiency, coherence, effectiveness, impact, and sustainability.

Several budget formulation limitations pose risks to ongoing projects and do not protect them from being crowded out by new projects. The budget's gatekeeping function needs strengthening. The Budget Office (BO) could enhance its role of protecting ongoing projects and preventing frequent portfolio rationalization, which indicates subpar budget gatekeeping. It could also better integrate the financial planning of the capital budget into the medium-term expenditure framework (MTEF), forming baseline budgets that include the ongoing project liabilities and examine the adherence of MPAs to prioritizing ongoing projects' financial needs.

Aggregate financial records contain serious inconsistencies, leading to discrepancies in the capital budget trajectory, undermining coherent policy direction, and hampering the communication of financial messages to citizens. This inconsistency complicates the data consolidation and comparison which is crucial for informed policy making. Due to these weaknesses, it was not possible to analyze public investment spending efficiency, effectiveness, or value for money for this PFR.

Data use in decision making is under-utilized. The demand for data within public agencies is not systematic, with poor institutionalization of data-driven solutions in their workflows. Data is often collected sporadically, when there is a need to meet the requirements of a new funding opportunity. The low use of data is compounded by poor data maintenance. Once collected, data is not adequately maintained or valued as an asset. The culture within public agencies values personal experience, but without converting it into institutional knowledge. The technology used is outdated, and data platforms established with cooperation partners' (CP) support are often inactive beyond the project. Finally, the potential of data to build consensus on public investment priorities and restore trust among citizens is unexploited.

There is room for the Center of Government (CoG) to enhance coordination and leadership functions for better PIM. The CoG is tasked with improving policy coherence to better represent the PIM cycle. Projects often have requirements that extend beyond their implementing agency, and the practice of establishing coordination meetings for each CP-funded project is costly and adds administrative layers. The CoG faces challenges in enforcing regulations, which often requires change management and leadership efforts at the senior management level. Laws and regulations (L&R) are not always adhered to. Many issues could be resolved within the existing legal framework. Some issues are behavioral—such as budgeting for organizational updates and data maintenance, and ensuring data is integrated into decision making—and will necessitate leadership at the senior management level.

The governance of local public investment struggles with low fiscal decentralization to support the local PIM cycle. Subnational resources to support local projects are minimal. Constituency Development Fund (CDF) support for community projects is centrally earmarked with selection controls. The local authorizing environment for resources is weak, including human resource management and funds. Another challenge is mainstreaming long-term selected projects under the District Integrated Development Plan (IDP) into the CDF, creating layers of planning that do not speak to each other or the budgeting exercise. Additionally, strengthening local institutional structures and systematizing community engagement are critical for supporting local project prioritization and implementation.

Community engagement requires a more systematized approach, with procedural manuals on engagement practices, data availability, and information to develop project business cases, and technology for community monitoring and evaluation (M&E). Local participation in community project procurement should be enhanced to ensure effective consultation, supported with an evidence-based process of building consensus around priority projects. Additionally, accountability is focused only upwards, with few measures to foster citizen M&E.

2.1 INTRODUCTION

The significant challenges with public investment management over the last decade need to be resolved to implement the infrastructure needed to deliver the 8th National Development Plan

Public investment management (PIM) has acquired a lot of attention in Zambia recently. The country faces large infrastructure gaps in enabling its energy, transport, water and sanitation, and digital sectors. PIM is part of the current administration's focus to deliver on its commitments in the 8NDP and its cascading strategies and policy notes.

In the last decade, many debt-financed public investments led to cost overruns and unsustainable debt accumulation without contributing to economic growth or job creation (Chapter 1). GRZ's capital budgets have historically seen significant deviations between planned and executed spending. The 2017 Public Investment Management Assessment (PIMA) found that Zambia's public investment program suffered from many stalled and incomplete projects that wasted resources, put pressure on the budget, and increased public debt.[36] At the same time, despite having a policy and legal framework in place for almost 15 years to promote public-private partnerships (PPPs) for public investment, Zambia has seen little success in mobilizing private capital to support the public investment program and benefit from private sector efficiencies.

This chapter provides a PIM rapid assessment conducted using desk research and interviews with departments in MoFNP and the MPAs.[37] The chapter is selective and applies an appreciative inquiry approach for assessing and proposing changes to improve the PIM system.[38,39] The World Bank Unified Framework for Public Investment Management inspired the analysis.[40] The chapter also made use of the analytics framework of the World Bank Government Analytics Handbook (2023), which incorporates public administration and organizational perspectives on creating value through data and analytics.[41]

The quantitative analysis for this PFR was limited by data issues, which included substantial data fragmentation and discrepancies between data from different sources. Further analysis of PIM data can be found in Section 2.3.1; however, the "Fiscal Table" was used to report figures at the aggregate level, which likely consolidates data from various sources and accounts for foreign-financed expenditures and other financial data not captured in IFMIS.

[36] Chaponda, Taz et al. (2017).
[37] Several documents were received from the Budget Office (BO), including the Budget Call Circular; OBB Budget Challenge Guidelines; Budget Performance Report Format; and MTBP.
[38] This approach appreciates the strengths of the systems/organization and builds on them, whereas problem-centered models identify a gap between the current and ideal state of affairs and a change process is designed and implemented to bridge it.
[39] World Bank (undated); Watkins & Mohr (2001).
[40] Rajaram, et al. (2014).
[41] Rogger and Schuster (2023).

2.2 PROFILE OF PUBLIC INVESTMENTS

While the number and size of projects under the 2024 Public Investment Plan has been greatly reduced due to budget consolidation, there are still many projects planned for future years

In response to budget consolidation, the 2024 Public Investment Plan (PIP) is limited to 97 projects targeted for possible funding in 2024 and in the medium term. The PIP contains projects recommended for funding, and projects planned for future years that need further development. In the 2024 PIP, the total number of kwacha-denominated projects decreased by ZMW 21 billion (USD 1.03 billion) (from 118 to 97) and there was also a substantial decrease in capital costs, from ZMW 6.5 billion (USD 321 million) (and USD 1.5 billion for dollar-denominated projects in 2023) to ZMW 582 million (USD 28 million) in 2024.[42] However, there are many projects recommended for further development. These amount to ZMW 11.7 billion (USD 579 million), and the dollar-denominated projects amount to USD 4.6 billion.

Road infrastructure continues to be a priority, and a significant share is recorded under the finance ministry. The bulk of allocations to capital budgets appear under Head 21 of the MoFNP budget (Figure 42).[43] In 2023, Head 21 received an allocation of ZMW 6.6 billion (USD 268 million), which accounted for about 40 percent of the total budget allocation to public investments. Roads are the main projects funded under this source (development, upgrading, and rehabilitation), with a share of up to 75 percent of the allocation. Concurrently, the budget has also increased for critical public services such as enhancing healthcare facilities, ensuring water and sanitation sustainability, expanding reliable energy sources, and upgrading educational infrastructure.

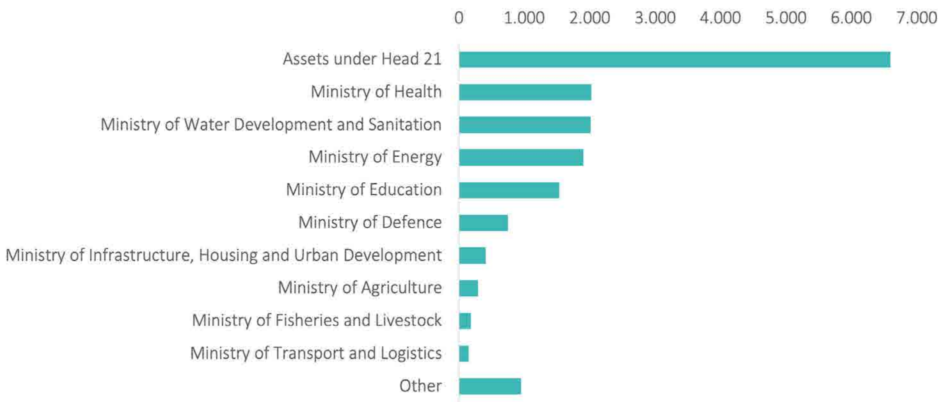
The 2024 PIP indicates that a notable number of public-private partnership projects are under consideration. This placeholder indicates a broader policy shift toward leveraging private sector investment to achieve public goals, reducing the fiscal burden on the government while continuing to develop critical infrastructure. Several concessions have already been signed under the PPP model. These include the USD 650 million Lusaka-Ndola dual carriageway, the USD 36 million Chingola-Kasumbalesa road, and the USD 180 million Kasomeno-Mwenda road.

[42] There are no dollar-denominated projects in 2024.

[43] Head 21 is a sub-budget head under the MoFNP budget. It is devoted mainly to investments of a national nature and the budget provides protection for them against competition from any new projects.

Road infrastructure continues to be a priority, and a significant share of the funding appears under Head 21 of the MoFNP budget which is used to fund projects of national interest

Figure 42: Budget composition of non-financial assets by MPAs (million ZMW) (2023)



Source: Zambia Statistics Agency.

When compared with the 2023 PIP, the government has downsized the number of projects across clusters and significantly cut capital costs. The Economic and Transformation and Job Creation Cluster has seen a decrease in kwacha-denominated projects, from 77 to 70, and a significant decrease in capital costs—from ZMW 2.0 billion (USD 98 million) to ZMW 200 million (USD 9.9 million). The Human and Social Development cluster also sees fewer kwacha-denominated projects (from 23 to 15) and capital costs—from ZMW 4.2 billion (USD 207 million) to ZMW 249 million (USD 12 million). Unlike the overall trend of decreasing costs in other clusters, the Good Governance Environment cluster has seen an increase in capital costs (from ZMW 71 million (USD 3.5 million) to ZMW 133 million (USD 6.5 million) (Table 3).

Table 3: New projects for 2023 and 2024 by cluster

	2023				2024			
	Kwacha projects		USD projects		Kwacha projects		USD projects	
8NDP Strategic Development Areas	No. of projects	Total capital costs (ZMW million)	No. of projects	Total capital costs (USD million)	No. of projects	Total capital costs (ZMW million)	No. of projects	Total capital costs (USD million)
Economic Transformation and Job Creation	77	2,007	9	1,448	70	200	0	0
Human and Social Development	23	4,268	4	79	15	249	0	0
Environmental Sustainability	3	119	0	0	0	0	0	0
Good Governance Environment	15	71	2	5	12	133	0	0
Total	**118**	**6,465**	**15**	**1,532**	**97**	**582**	**0**	**0**

Source: Constructed from the 2023 and the 2024 Public Investment Plans, MoFNP.

There is a focus on long-term and large-scale projects, with more than half of the investment portfolio focused on projects that are three years or more in length; while there are more medium- and short-term projects, they are less financially significant

Long-term projects, defined as those extending beyond three years, account for most investments by contract value and total portfolio share. Accounting for 57 percent of the overall investment portfolio, long-term projects amount to ZMW 40.2 billion (USD 1.9 billion) in contract value and USD 3.6 billion for foreign currency-denominated projects (Table 4). Medium and short-term projects make up a smaller share, but demonstrate a diversified approach to development, balancing immediate needs with long-term goals.

Table 4: Contract value of projects with outstanding contract balances as of end-December 2022 by duration

Term	Contract value (ZMW million)	Contract value (USD million)	Total contract value (ZMW)	Percentage Share	No. of projects
Long (more than three years)	40,241	3,646	114,013	57	419
Medium (1-3 years)	26,328	880	44,130	22	522
Short (less than one year)	2,937	29	3,534	2	271
Not stated	2,950	1,714	37,634	19	235
Grand total	**72,457**	**6,269**	**199,310**		**1,447**

Source: Constructed based on data from the 2022 National Inventory of Public Investments Infrastructure Projects Report, MoFNP.

The size distribution of project funds reveals a strategic focus on large-scale investments. Category III projects, with contract values exceeding ZMW 100 million (USD 4.9 million), have a total contract value of ZMW 47.7 billion (USD 2.3 billion) and USD 6.13 billion. They represent 87 percent of the allocated funds but comprise only 193 projects. There is a relatively balanced distribution in the number of projects across the categories, with smaller projects being more numerous but less financially significant (Table 5).

Table 5: Contract value of projects with outstanding contract balances as of end-December 2022 by project size

	Contract value (ZMW million)	Contract value (USD million)	Total contract value (ZMW million)	Percentage share	No. of projects
Category 0	71	1	184	0%	308
Category I	1,656	3	1,720	1%	287
Category II	22,925	102	24,981	13%	659
Category III	47,704	6,164	172,424	87%	193
Grand total	**72,356**	**6,270**	**199,30910**	**100%**	**1,447**

Source: Constructed based on data from the 2022 National Inventory of Public Investments Infrastructure Projects Report, MoFNP.

While funding sources are diverse, domestic resources dominate, with the government funding more than half the public investment projects, raising sustainability concerns if domestic borrowing is increased

Zambia's public investment projects are funded by a mix of domestic resources and international financing, with domestic resources dominating. The funding sources include government, multilateral development banks, bilateral partners, and commercial banks, indicating a diverse funding base for Zambia's development agenda. The GRZ is the leading financier of public investment projects, especially long-term initiatives, underscoring the government's role in driving national development. The GRZ funds amount to ZMW 108.9 billion (USD 5.3 billion), accounting for 55 percent of all funds for public investment projects. This may raise questions about the sustainability of such investments, especially if they are financed through increased domestic borrowing. Because of its debt default in 2020, the government effectively lost access to virtually all new external financing. Only the World Bank and the African Development Bank continued to provide external financing for new projects. It will be important as the government moves beyond the debt crisis to ensure that there is strong discipline and sound, evidence-based decision making when approving public investment projects, to avoid replicating the decisions made in the 2010s (outlined in Section 1.1).

Chinese financial institutions are key partners, with substantial investments in long and medium-term projects. The Exim Bank of China is the second-largest contributor, focusing heavily on long and medium-term projects. It is providing a total of ZMW 30.3 billion (USD 1.5 billion), representing 15 percent of total funding (Table 6). The distribution of funds from international donors and financial institutions primarily towards long-term projects suggests a focus on substantial, sustained development efforts.

The National Road Fund Agency is the third largest source of funds for public investments, accounting for an 8 percent share. With a total funding amount of ZMW 16.8 billion (USD 830 million), NRFA has mainly contributed to medium-term investments such as road rehabilitation, maintenance, and upgrades. With NRFA's funding primarily derived from road tolls and fuel levies, it represents a sustainable and self-replenishing source of finance that does not contribute to debt, which is positive for fiscal sustainability.

Table 6: Source of funding for public investment programs as of end-December 2022 by duration of project (ZMW millions)

	Long term	Medium term	Short term	Not stated	Grand total	Percentage share	No. of projects
GRZ	63,152	14,797	2,533	28,368	108,851	54.6	981
Exim Bank of China	12,108	10,865		7,285	30,258	15.2	17
NRFA	3,384	12,297	661	423	16,764	8.4	290
AfDB, WB, EIB/ KfW	7,823	1,135			8,958	4.5	15
GRZ/Standard Chartered Bank & Bank of China	6,907				6,907	3.5	18
AfDB	4,281	1,736	91		6,108	3.0	34
Exim Bank of India	5,850				5,850	2.9	1
GRZ/Industrial and Commercial Bank of China	3,581				3,581	1.8	6
SFD/GRZ	2,570				2,570	1.3	1
EIB, EU, GRZ, AFD	1,507	677		1	2,184	1.1	17
Other	2,850	2,624	248	1,558	7,280	3.7	67
Grand total	**114,013**	**44,130**	**3,534**	**37,634**	**199,310**	**100**	**1,447**

Source: Constructed based on data from the 2022 National Inventory of Public Investments Infrastructure Projects Report, MoFNP.

2.3 PIM INSTITUTIONAL CHALLENGES AT THE CENTRAL LEVEL

MoFNP plays a pivotal role in ensuring that PIM practices comply with the legal and regulatory framework

PIM efficiency and effectiveness are vital for the success of the government's transformation agenda. PIM plays a critical role in fostering the transformation agenda of the 8NDP and efficiently managing the reduced resources available for public projects under the current public consolidation program (Chapter 1). The National Public Investment Management Strategy (NPIMS) for 2024-2027 captures this need and highlights many practices that should be improved to strengthen the PIM system in Zambia. The strategy provides an analysis of the PIM system challenges and identifies several areas for improvement.

MoFNP, given its pivotal role in the PIM agenda and its legal and regulatory framework. Many developments in the NPIMS will be implemented by MPAs. However, ensuring that the reforms are integrated into the legal framework and monitored for effective enforcement will remain an MoFNP responsibility. The rapid PIM assessment identified three critical areas that will underpin improved practices at the central level: (1) data and information system use; (2) the quality of budget practices; and (3) anchoring both areas to the center of government (CoG) functions related to the PIM system. These are each discussed below.[44]

2.3.1 Data and Information Systems

There is a lack of robust and project-specific data available to support quality PIM decisions

Zambia's data and information systems for PIM constitute a major challenge for quality PIM decisions.[45] There are inconsistencies in the PIM data produced by MoFNP, which are then incorporated into other datasets. Figure 43 shows the inconsistencies in capital budget performance across three available sources: ZamStats, the Fiscal Table, and Statement B. Data presented by ZamStats and the Fiscal Table shows peaks where spending exceeded the budget (over 100 percent execution rate) at different times, with ZamStats data peaking in 2017 and the Fiscal Table in 2018. Statement B data, however, shows more conservative spending, staying below or around the 100 percent mark (for further analysis see Annex 2B).

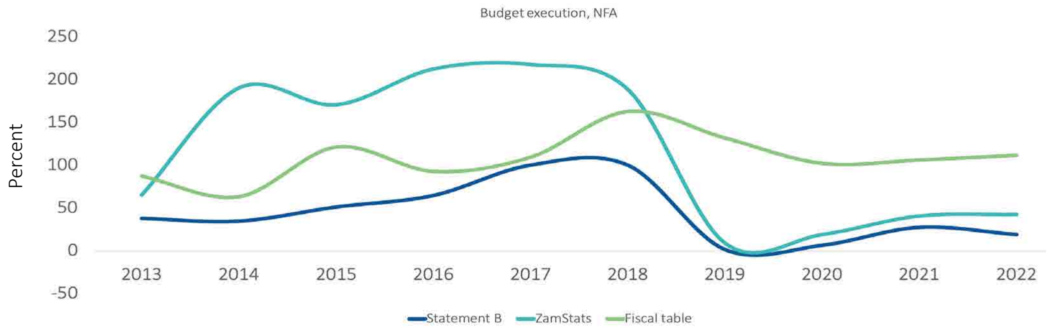
The source of the data inconsistencies is unclear. Interviews conducted for this report could not corroborate whether the divergent trends lie in different methodologies, definitions, or objectives. While this warrants further investigation, it highlights the need to better scrutinize the governance of financial data and consider what actions are required to improve the quality of data to inform evidence-based policy making.

[44] The chapter's findings confirm that most of the challenges highlighted by the previous PIMA analysis of 2017 remain, despite some developments in the system, such as the recent guidelines and the introduction of OBB. At the top of the challenges come low capital budget credibility and quality at entry. Some of the persisting difficulties are the weak link between project planning at the sector level and the budget process, the absence of incorporation of maintenance and operation cost of project documents, the absence of a common system of project appraisal and risk management, and unsolicited projects, and the inadequate protection to new projects. Moreover, the current system still falls short of providing effective resolutions to many problematic issues identified by the PIMA 2017. These challenges include the MTEF supporting medium-term capital budgeting, effective project M&E and post reviews and monitoring of assets registration and maintenance, control the arrears coming from the capital budgeting, availability of tools to screen project proposals for relevance, viability, and affordability before including them in the budget, and to foster transparency of the system.

[45] In addition to the data issues covered in this section, there are many inter-related challenges. For example, data and information are key to measuring performance in public procurement. As the e-GP system is now being widely used, more information will become available which ZPPA can use to improve procurement processes. ZPPA data shows that the time taken to sign a contract after completion of the evaluation of bids relative to the total time in the procurement process is 57.8 percent for open international bidding. This significantly exceeds the international norm of approximately 25.0 percent. The private sector faces systemic constraints in accessing the public procurement market. These constraints inhibit private sector participation, especially by SMEs, in IT, financing, and contracting practices. The payment system particularly has hindered many suppliers from doing business with the government. The government lacks a systematic approach to public procurement planning, including the widespread absence of updated annual procurement plans and the link between budget execution and procurement is weak.

The different data sources show very different pictures of capital budget expenditure

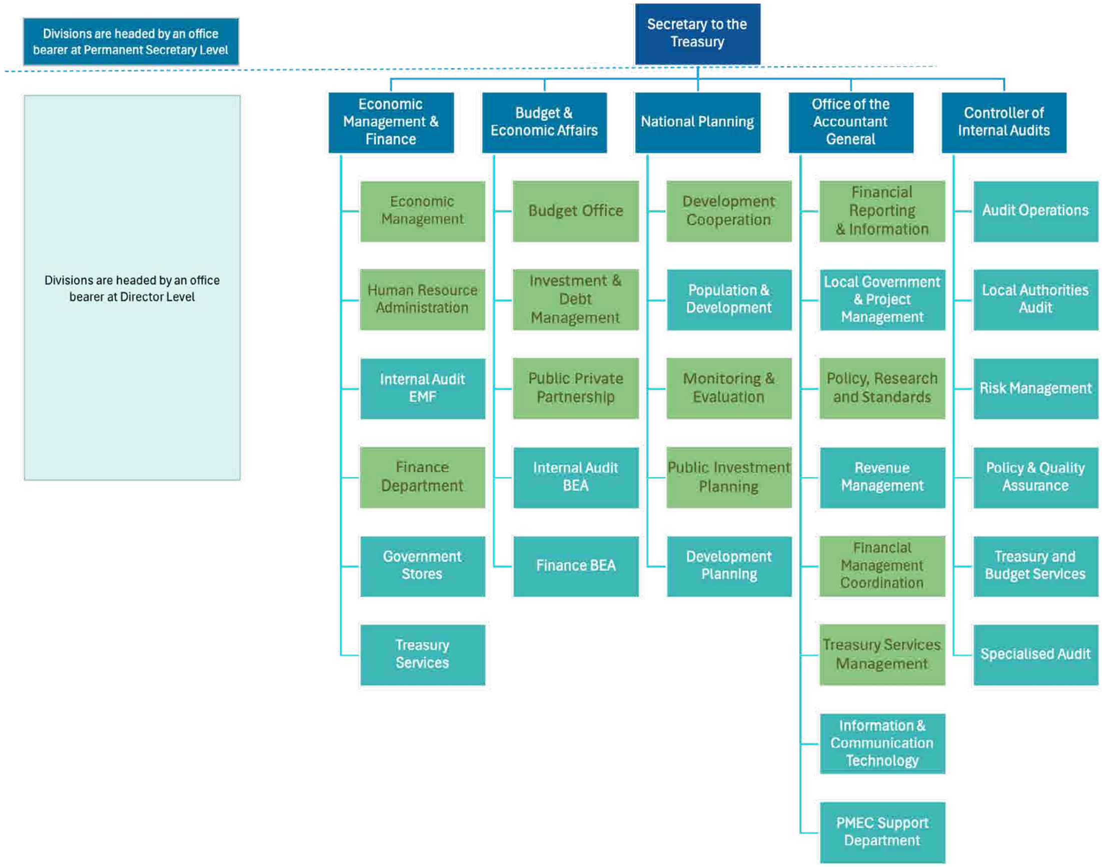
Figure 43: Performance of capital budget (2013-2022), execution rate



Source: Constructed from annual financial reports: Accountant General, Budget Office and Zambia Statistics Agency.

The responsibility for PIM functions is spread across MoFNP

Figure 44: PIM functions performed within MoFNP, mapped to its organizational structure



Source: https:/www.mofnp.gov.zm/?page_id=2001.
N.B.: Departments engaged in PIM functions are shaded green.

Many departments in MoFNP produce data related to their PIM functions; however, there is no project-consistent dataset in the ministry. The PIM functions are mapped to multiple departments within the MoFNP based on the stage of the project in the PIM cycle. Figure 44 maps the relevant departments to the PIM functions, based on interviews and MoFNP's organizational structure (Annex 2D). It does not appear that PIM functions overlap, even where multiple departments contribute to one function, but they perform their functions in silos without systematic data sharing. Departments are keen for more harmonization in order to better integrate PIM tasks. As each department keeps project data for specific purposes, this does not lend itself to providing a complete picture of the status of the projects, making effective supervision a challenge for the ministry. Two key reasons emerged from the assessment:

- The Project Module under IFMIS is not fully active. Each department keeps information based on its mandate and there is no internal protocol related to exchanging project data on a regular and structured basis.

- Each department uses a separate codification system to identify the same project. There is no unique identifier for the same project to facilitate tracking its status as it moves from one department within MoFNP to another. There are only aggregated codes for budgeting and accounting purposes, which focus only on capital projects.

Existing information systems are underused. Many MPAs have information platforms that collect, store, and analyze data to inform the project decision-making process. However, almost all those platforms are underused due to poor data quality and inadequate system updates and maintenance. Box 1 presents the case of information platforms in Zambia's roads sector. This case illustrates the challenge that implementing agencies face in maintaining the data platforms. MPAs are not allocating sufficient budget to sustain the quality of data platforms as an intangible asset. There are also no regulations or mechanisms to ensure that data is treated as an intangible asset that should be maintained for future operations. The Budget Call Circular (BCC) advises the MPAs to allocate sufficient resources under capital budgets to secure funds for maintenance. However, this applies only to tangible assets and does not recognize intangible assets, such as data.

BOX 1: Zambia's Road Sector Decision Support Tool – Highway Management System

There are three key players in the road sector in Zambia: The Road Development Agency (RDA), National Road Fund Agency (NRFA) and the Road Transport and Safety Agency (RTSA). RDA is the custodian of all public roads, NRFA administers road funds, and RTSA is responsible for the implementation of government policy on road safety and traffic management. RDA's responsibility extends to the care and maintenance of all public roads, which have been estimated at about 67,671km in length. However, owing to the vast extent of the network and scarce resources, RDA has prioritized a core road network (CRN) of about 40,454km of trunk, main, district, urban and rural roads. The objective is to focus on a much more manageable network that, if properly maintained, would spur socio-economic development. In addition, the RDA has delegated its authority for the management of the lower order roads, such as the urban and rural roads, to local road authorities for the efficient and effective implementation of road maintenance/rehabilitation works. However, despite having delegated this function, RDA still has jurisdiction over the network owing to some capacity issues with some local road authorities.

To manage the core road network effectively, RDA established a Highway Management System (HMS), with the assistance of the European Union, to act as a data repository for road inventory and condition. The HMS is intended to act as a decision support tool for the efficient and effective allocation of resources for maintenance of the core road network. RDA has successfully populated the system with the inventory and condition data dating back to 2008, and when funding is available, RDA has engaged consultants to collect data on the network over a rolling three-year period. To date, RDA has been able to publish limited road inventory and condition reports covering trunk, main district, urban and rural roads. However, there are sustainability issues with this model of data maintenance as RDA does not have the resources to continue funding the road condition data collection. In addition, owing to political influence and other factors, RDA has been unable to effectively use the HMS for informed resource allocation in its budgeting process. The allocation of resources in their Annual Work Plans uses a bottom-up approach, with needs emanating from the districts, local road authorities, and RDA's regional offices. This leaves road condition data, which is vital for decision making, without the necessary funding to ensure sufficient ongoing maintenance. RDA has made some efforts to revive the system, using funding under the Improved Rural Connectivity Project (IRCP) to purchase data collection systems and equipment. The goal is to collect data in-house whilst engaging consultants for broader coverage of the network. Owing to capacity constraints, RDA's in-house data collection has been limited to just the trunk roads with the other networks unattended to.

RDA is still facing challenges in collecting the condition data covering the entire CRN. In addition, the use of such data in decision making has been undermined by factors such as political influence over which roads are to be worked on and capacity constraints. Some of the data in the HMS has been used effectively to leverage funding from multilateral development banks, such as the World Bank for the Improved Rural Connectivity Project and the North-South Corridor development.

Source: Based on interviews with the Road Development Agency (RDA).

The value and use of data are not systematically integrated into PIM processes, particularly for supporting MoFNP's oversight role

Despite the existence of an information system in MoFNP to track project implementation, it is widely underused. All MPAs should be performing M&E functions as required under the 2019 National Monitoring and Evaluation Policy. In 2018, the Monitoring & Evaluation Department in the MoFNP established the Monitoring and Management System (MMS) to scrutinize projects and attribute them to the national development plans.[46,47] The project module tracks all projects in the national inventory of projects, and it captures a range of project information such as implementing ministry/institution; location of project (province, district and constituency); funding type (grant, loan, GRZ, PPP, private or Constituency Development Fund); name of contractor implementing the project; contract start and end dates; percentage of work done; contract value; amount certified; payments to date; and GIS coordinates for the project to enable project visualization. To date, use of the MMS is low (less than 40 percent of projects have the necessary data), so it is difficult to track project implementation or identify timely corrective measures that may be needed if projects are not on track.

The MMS is not used systemically because there is no regular collection of project implementation information by MPAs.[48] MPAs collect information on an irregular basis—only when it is requested by management. Decisions are not regularly informed by data. This risks poor-quality decision making and increases the likelihood that legacy issues will be repeated. In plain terms, the PIM system is being managed through "educated guesses". While individual staff experience is an important qualitative and intangible asset, there is a need for a more structured use of data, including a method to combine quantitative and qualitative data effectively, as well as accountability mechanisms that will drive that a greater focus and effort on data use.

The MMS is not interfaced with the IFMIS; doing so would provide insights into budget adequacy and cash management. The coding system in MMS does not currently differentiate between capital and recurrent expenditure. This missing link is important as it would establish a clear association between budget execution and progress in achieving development objectives, as well as ensuring that decision making and evidence-based policy can be informed by a holistic picture across MPAs.

Most MPAs do not have a designated office for M&E and the impact of low data system use is significant. Staff in MPAs are not trained or incentivized to use data to support the project cycle. The information function tends to be assigned to the Planning Departments (PDs) in many MPAs, for example in the Office of the Auditor General (OAG) and Ministry of Local Government and Rural Development (MLGRD); or to separate departments that are already performing a data function. An example is MoFNP, where the Financial Reporting and Information System (FRIS) department hosts the IFMIS unit. However, the function is not supported by dedicated information units staffed with statisticians or data specialists to ensure data governance and quality.

[46] Through technical support from UK AID (DFID) and through GIZ over 2015-2019.

[47] The system has three modules: (1) an annual work plan for program activities and outputs for each MPA; (2) a project module; (3) the National Development Plan interventions.

[48] Based on interviews with MPAs.

2.3.2 Quality of Budget Practices

Current budget practices are not robust enough to ensure quality projects at entry and there is an increased risk that portfolio rationalization exercises will continue to be required to manage funding requirements for a project portfolio that is growing in the absence of a credible capital plan

Critical budget practices, such as challenge and gatekeeper functions, are not strong enough to ensure quality projects at entry. While the Project Investment and Portfolio Department (PIPD) plays the role of external reviewer, its work ends after approving projects and combining them into the PIP.[49] The PIPD's work is not informed by the budget constraints underlined in the medium-term expenditure framework (MTEF) or the annual budget exercise. During the preparation of the MTEF and the annual budget, the PIPD does not receive guidance on the financial framework of the capital plan to inform its approvals for new projects. The de facto practice is project-based approval. No additional prioritization is conducted to narrow down the number of approved projects to fit the constrained resource envelope. Therefore, PIPD approval qualifies the project to be eligible for funding, pending the availability of resources. For each MPA, newly approved projects will form a project library from which MPAs are eligible to draw when funds are available, as it is unlikely that resources will be enough to implement all projects during the same budget year.[50]

The BCC directs MPAs to prioritize resources to on-going projects and ensure that new projects are viable and aligned with national development priorities and other guidelines.[51] However, the de-facto practice is for the decision on opening the budget gate to new projects to be split between the Budget Office (BO) in the MoFNP and the MPA. The BO provides the annual envelope or financial resource ceiling to the MPA after ensuring that all recurrent commitments (mainly constitutional and statutory obligations, wage bill, debt service, and transfers) are satisfied in the MPA budget proposal.[52] However, beyond this fiduciary guidance provided in the BCC, the BO does not assume the role of budget keeper for new projects, taking a neutral position on the competition for funding between ongoing and new projects.

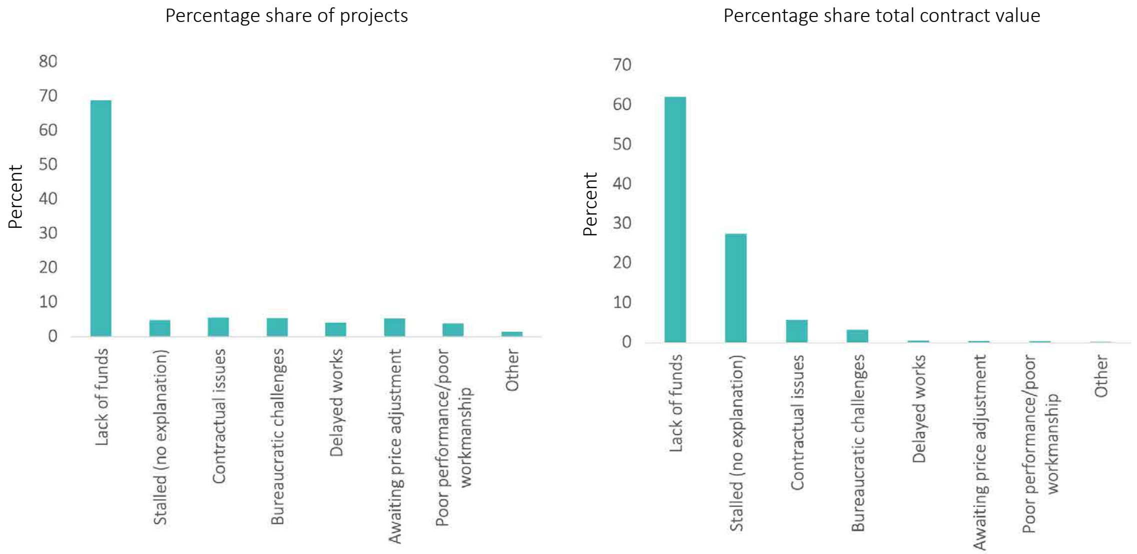
The budget exercise does not include a baseline budget assessment for ongoing projects. The BO does not prepare a baseline budget in which ongoing projects are considered as a debt in the budget process. As a result, ongoing projects are not protected from competition with new projects. The budget desk specialist for the MPA, who sits in the BO and is responsible for disbursements, does not have a full record of ongoing projects for the MPA. The responsibility for the selection of the project rests with the proposer/implementing agency. The annual ceiling is communicated to the MPAs through the BCC, which places responsibility for allocating resources for MPA priority projects with the MPA.

[49] The MoFNP website provides the PIP for the years 2023 and 2024.
[50] In Chile and many Latin countries, the term "project bank" is used to refer to a library of projects (World Bank and PPIAF, 2022).
[51] Similarly, the medium-term BCC advises the MPAs to prioritize ongoing projects. Additionally, the National Planning and Budgeting Act No. 1 of 2023(2) protects long-term national projects and requires that projects of a national character in an approved National Development Plan and spanning beyond the end of a national development plan period be binding on successive governments.
[52] The MTEF exercise also provides an indicative ceiling for each MPA to help them structure their medium-term financial planning.

The BO has no clear mandate to practice the budget challenge function for public projects. Budget hearings during the preparation phase play that role, but not specifically for the capital budget. Additionally, several MPAs indicated that the budget challenge function is conducted at Cluster Advisory Group (CAG) level but not in a structured way, and it does not specifically focus on PIM.[53] The CAG is not structured with the mandate to fulfil the challenge function; instead, it has a consultative and coordinating role that focuses on allocating the cluster budget envelope among different MPAs. However, MPAs have raised concerns that the discussion with the CAG to inform the budget allocation is not evidence-based and does not resolve subsequent challenges and complaints. Often MPAs will negotiate their budget allocation individually during the budget hearings.

Lack of funds is the predominant reason for stalled projects, exposing weak budget practices and lack of protection for ongoing projects from competition with new projects for funding

Figure 45: Reasons for stalled projects by share of project number (graph a) and value (graph b), as of 2022



Source: Constructed based on data from the 2022 National Inventory of Public Investments Infrastructure Projects Report, MoFNP.

These practices jeopardize the budget credibility of the capital plan. They create uncertainty as to whether there is the capacity to meet the funding requirements of the growing project portfolio, while new projects crowd out the funding of ongoing projects. Weak budget credibility at entry raises risks of portfolio rationalization and may give rise to questions about the impact on national objectives. Given the huge portfolio accumulation and as part of debt restructuring, in 2022 MoFNP and the MPAs conducted a portfolio review of public investment infrastructure projects to rationalize the number of suspended projects in the system.[54] Box 2 provides a summary of the portfolio review, while Figure 45 and Table 7 present information about the stalled projects and the link to inadequate budgets.

[53] Established by the Planning and Budgeting Act, articles 13 and 14.

[54] The National Inventory of Public Investment Infrastructure Projects Report.

Table 7: Reasons for stalled projects by share of number and value

Reasons for stalled projects	No. of projects	Percentage share no. of projects	Contract value (ZMW)	Contract value (USD)	Total contract value (ZMW)	Percentage Share total contract value
Lack of funds	523	69	37,291	1,561	68,878	62
Stalled (no further explanation given)	37	5	1,259	1,447	30,542	28
Contractual issues	43	6	2,921	168	6,318	6
Bureaucratic challenges	42	6	3,100	25	3,615	3
Delayed works	31	4	293	15	592	1
Awaiting price adjustment	41	5	504		504	0
Poor performance/ poor workmanship	30	4	284		284	0
Other	12	2	274		274	0
Total stalled projects	759	100	45,925	3,216	111,006	100

Source: Constructed based on data from the 2022 National Inventory of Public Investments Infrastructure Projects Report, MoFNP.

BOX 2: Project Portfolio Rationalization

As a result of a huge portfolio accumulation and as part of the debt restructuring, MoFNP and the MPAs conducted a National Inventory of Public Investment Infrastructure Projects in 2022 to rationalize the number of suspended projects in the system. At the end of December 2022, 16 percent (633) of the public investment projects had stalled. The key reasons identified were:

- *Inadequate funds (525 projects):* This significant figure reflects a widespread challenge across many projects. The various financial issues—lack of funds, delayed funding, erratic disbursements, and non-disbursement—highlight a critical vulnerability in project financial health and management. The high incidence of inadequate funds could suggest that projects are often initiated without secured funding lines or failing to account for potential economic disruptions. This points to a broader trend of financial instability and the critical impact on project viability.

- *Awaiting price fluctuation/renegotiation (40 projects):* This indicates that many projects are at the mercy of market dynamics, particularly the prices of crucial inputs like building materials. The decision to stall projects in the hope of renegotiation reflects an environment where costs can be difficult to predict and control. This volatility introduces significant unpredictability into project planning and management, as it can quickly change the financial feasibility of a project.

- *Poor performance/workmanship (29 projects):* The prevalence of this issue suggests that quality control is a significant challenge. The root causes could be multifaceted, ranging from inadequate contractor vetting to insufficient oversight during execution. The implication is that projects are occasionally unable to maintain the expected standard of work, leading to disruptions and halting project progress.

- *Contractual issues (20 projects):* Contractual disputes can stem from various sources, including disagreements over the scope of work, project specifications, or the interpretation of contract terms. The fact that 20 projects have been affected by such issues indicates that contract negotiation, formulation, and management are critical points of potential failure in the project lifecycle.

Procurement delays (19 projects): These delays indicate the challenges in managing the supply chain and the dependency of projects on the timely delivery of goods and services. The fact that procurement can stall a project underscores the complex nature of project logistics and the extent to which projects rely on external entities for success.

Source: World Bank staff's categorization based on National Inventory of Public Investment Infrastructure Projects (MoFNP, 2022).

Unsolicited projects put the appraisal, gatekeeping, and challenge functions at further risk. Interviews with the PIPD and BO revealed that many unsolicited ideas for large public investment projects are still coming directly from the political level and crowding out cash releases to ongoing projects.[55] Projects issued as an emergency response are exempt from appraisal (external review by MoFNP). This is granted by the PIM Guidelines.[56] However, as there is no requirement to identify or validate the emergency context, there is a large hangover of "legacy" projects that have been started using considerable public resources but have not yet been completed.

Inadequate project appraisal processes mean that MPAs are not held accountable for submitting well-prepared and sustainable projects and there are gaps in MoFNP's oversight role

The practices of appraisal function are limited. The PIM Guidelines explicitly assign the project external review function to the PIPD (MoFNP), and the internal appraisal to the Planning Departments (PDs) of the MPAs. The scope of appraisal is provided by the guidelines to ensure projects (1) are aligned to the National Development Plan objectives, strategies, and programs; and (2) meet the required technical, environmental, social, and economic criteria for the allocation of public resources.[57] The guidelines request both the PDs of MPAs and the PIPD to establish and prove the projects' relevance to and coherence with standards and policies. The appraisal template has sections to direct MPAs on how to establish the required attribution. However, neither the appraisal template nor the system utilized provides an adequate way of verifying many important aspects of quality at the time of entry, such as evidence of coherence, efficiency, impact, or sustainability:

- There is a lack of coherence of projects with other sectors' interventions, policies, and goals. The current appraisal process lacks the tools to consider the compatibility and coordination of the various components and stakeholders that should be involved for the project to be implemented smoothly. These aspects are important for supporting the BO to coordinate the portfolio and the CAG to continue their coordinating role during project implementation. This partly explains the delays in project implementation.

- Data is under-utilized. The PIPD receives a large amount of information (through their review of the appraisal documents from MPAs) related to the attribution of the proposed projects to fill specific development gaps. Yet PIPD lacks the capacity to process the information in a manner that lends itself to support future monitoring to ensure the project is continuing to meet the proposed efficiency trajectory[58] (such as the unit cost of providing services[59]) or to assess any remaining development gaps which should inform similar future interventions.

[55] MoFNP's Public Investment Management Strategy 2024-2026 alluded to that challenge and mentioned "Some projects bypassing appraisal processes", quoting Table 3.2, p 5.
[56] PIM Guidelines 2023, p. 7.
[57] Medium-term Budget Call Circular.
[58] Interviews with the OAG and reviews of various audit reports found allusions to many inefficiencies in PIM processes due to the lack of an effective M&E function by the implementing MPAs; poor workmanship; significant financial losses as a result of corruption in procurement processes; weak technical capacity in MPAs to supervise consulting professional technicians (such as engineers); certificates of payments presented to NRFA for payment without physical verification and no evidence of completed work on the ground; MPAs entering into contracts with onerous clauses such as penalties for delayed payment of advance and certificates of payment; and MPAs signing performance bonds and entering into contracts without money.
[59] The implementation of the activity-based and output-based budgeting in Zambia is not linked to conducting an efficiency analysis.

- There is no proof of sustainability from the MPAs, or a description of how they will work on sustainability through their future budgeting endeavors with the BO, such as assessing a project's operational and maintenance costs. The BO is not required to request this information from MPAs either.

Even the request to establish the attribution to the NDP is not performed through a comprehensive lens. The PIPD does not have the mandate to guide bankable projects to the private sector or the PPP stream. Many approved projects could constitute good business opportunities for the private sector if the PIPD established a more strategic appraisal process. Using the PIM Guidelines for appraisal should bring a more focused effort to ensure that projects that require public money are able to be funded, and that projects that could benefit from greater market contestability can be considered by the private sector or as a PPP. This approach would also help to reduce the fiscal burden on the government and ensure a more robust management of the level of public debt.

Insufficient systems and processes for cash management, capital budget commitment controls and procurement significantly raise the risk of arrears accumulating, which may put the country back into a difficult fiscal position

Cash management and commitment controls for the capital budget are not strong enough to support project implementation. The BO requests MPAs to submit funding profiles on a quarterly basis, and these are aligned with the ceiling set out in the BCC and appropriations. However, whenever cash is available for release in the IFMIS, the BO requests the MPAs to re-profile the earlier funding submission to align it with the available cash. In times of cash constraints, respective releases depend on BO officials' choices, influenced by discussions with the relevant MPAs. However, it is for the MPAs to decide where to spend the releases made available. Cash releases are made to MPAs according to programs, subprograms, departments, recurrent expenditures, and capital expenditures. Capital projects are funded at the aggregate level without a breakdown of projects. Usually, MPAs prioritize recurrent expenditures, which can lead to an accumulation of arrears for capital projects. The cash release in the IFMIS can only be viewed by the MPA and BO, but not by the Treasury Services Department (TSD). As project information is not viewable by the TSD it ends up disbursing cash blindly.

Cash releases are primarily informed by the cash balance at the Bank of Zambia and the anticipated cash inflows from government securities and the Zambia Revenue Authority. Every day, transfers are made from the Control 99 account to the Treasury Single Account, which is a TSD payment account, based on the funding slip generated in the IFMIS and presented by the MPAs.[60] The TSD receives instructions based on the funding slip from the MPAs to pay contractors' invoices because contractors lack access to the system to post requests.

This practice could lead to an accumulation of arrears. The Project Module under the IFMIS is not fully active or able to accommodate the completed procurement plan for the project. There is also no procurement module. Contracts for the construction of roads worth ZMW 9.6 billion (USD 400 million) at the end of 2022 were the largest category in the outstanding stock of arrears, apart from VAT refunds.[61] Table 8 shows the magnitude of MoFNP capital arrears scheduled for dismantling. These issues are also reflected in delayed and uncertain payments to suppliers and contractors, with consequent loss of competition and an increased cost of future bids.

[60] Revenue Consolidated Account.
[61] MoFNP, 2023.

Table 8: Medium-term plan for dismantling capital arrears

Allocations	Expenditure Head	Institution	2024	2025	2026
Budget allocation	21	MoFNP—Loans and Investment	ZMW 13.83 billion	ZMW 19.24 billion	ZMW 21.33 billion
Arrears allocation			ZMW 8.83	ZMW 12.53	ZMW 14.21
Percentage of arrears allocation against budget allocation			64%	65%	67%

Source: Medium-term Budget Call Circular.

2.3.3 Center of Government PIM functions

Weak coordination mechanisms undermine effective project implementation; more effective communication and transparency can strengthen citizen engagement and trust

The Center of Government (CoG) is unable to fully support the PIM system. CoG functions typically refer to the core activities and operations that are carried out by the central units or offices that directly support the head of government and the cabinet. This sub-section will focus on two of those functions related to PIM: (1) communication, disclosure, and transparency; and (2) coordination to ensure coherence.

Disclosure and transparency need to be strengthened to support access to information and the right to participate in public affairs. In December 2023, Zambia enacted an Access to Information Act which allows citizens to request unclassified information from the government on any issue of public interest. MPAs will need to reflect and establish their access-to-information mechanisms, such as publications and interactive platforms for PIM. MoFNP is already required to publish a schedule of approved, appraised projects,[62] though the act does not provide any guidance on the timing of publication or the information to be provided. The PIPD does not publish the parameters they use to consider and approve projects or how the parameters are used. This raises several questions, such as: what minimum score is necessary under the appraisal criteria in order for a project to be considered approved? Are all the elements under the appraisal criteria scored equally or do some elements have more weight? In addition, the PIPD doesn't disclose which projects are actually entered into the budget; instead, it refers to projects that are eligible to enter the budget.

No information is disclosed about the performance of projects, and the MMS is designed for internal use and lacks a window for public accessibility.

[62] Under Article 24(3) of the National Planning and Budgeting Act No. 1 of 2020.

Citizen engagement still lacks informant communication. Local structures, such as Ward Development Committees and Neighborhood Health Committees, are established to connect the central level of decision making to citizens' needs (Annex 2C provides a list of these committees and their role in PIM). These local structures reach out to their communities to collect information on needs and share this information with the central deconcentrated branch at the provincial level to help inform planning at the central ministry. As part of the PIM rapid assessment, many stakeholders interviewed revealed that neither of those local committees nor the citizens receive any subsequent feedback from the central level on how the priorities were framed and why. The same observation applies to feedback provided by citizens on project implementation or operationalization. In essence, there is a single line of communication upwards from the citizen, without a matching one to bring transparency and accountability back down.

Current practices do not support transparency sufficiently to build trust with citizens. Citizens observe infrastructure projects being implemented in their communities without receiving prior information about cost, or without the capacity to monitor implementation or provide oversight:

- **The M&E framework currently lacks any citizen inclusion, which is a significant oversight.** The lack of a designated institution or department to gather feedback from beneficiaries on the effectiveness, impact, and sustainability of projects is a missed opportunity for meaningful engagement and improvement. Many capital projects have a direct impact, either negative or positive, on community groups, yet these groups are often not consulted beforehand, nor are there measures in place for mitigation or adaptation. This lack of communication is symptomatic of a broader issue with data availability. Without the necessary data, MPAs are unable to ensure effective communication with citizens, undermining the potential of the PIM accountability framework for public oversight.

- **The current approach to complaints and grievances is fragmented.** While some projects may have a grievance mechanism as part of their management structure, there is no centralized agency tasked with collecting and processing grievances and redress (G&R) across all projects. Grievances constitute a vital source of data that could inform decision making and policy on citizen engagement. Although some MPAs might address G&R issues within the scope of human resource management, as seen with the Ministry of Health (MoH), this approach does not translate into citizen engagement with project issues. To enhance the effectiveness of citizen engagement in the M&E framework, it is crucial to establish a centralized system for collecting and processing feedback, grievances, and data, which can then be used to inform decisions and policies that truly reflect citizens' needs and concerns.

Project implementation is at risk from poor coordination. Assessing project coherence is crucial to ensure alignment with other initiatives and overarching goals. It involves evaluating the synergy between project components, stakeholders, and policies. A sector-wide budgetary approach is recommended for projects requiring policy and capital program coordination, both during and post-implementation. For instance, the success of a new school hinges on integrated services like roads, utilities, and security. In Zambia, project delays are frequently exacerbated by the complexity of multi-agency policy and capital programs. While large projects typically form high-level steering committees to address coherence, this can be costly and burdensome for Permanent Secretaries (PSs) as they are involved in multiple steering committees. A more efficient solution could be to establish such committees at the cabinet level to streamline coordination.

2.4 LOCAL PIM SYSTEM AND PERFORMANCE

Despite multiple sources for funding projects, local authorities are still struggling to meet local infrastructure needs

Local authorities (LAs) have multiple sources from which to finance projects, yet they are still failing to meet local infrastructure needs due to recurrent expenditure demands. In addition to the funding sources that MPAs have access to, LAs are able to access:

- Local government equalization funds (LGEF): a formula-based, intergovernmental fiscal block transfer designed to create equality among different districts.
- Grants in lieu of rates (GILR): another source of transfers that add to LAs' self-generated pool of revenue.

However, with LAs' growing responsibilities and consequent increases in staff numbers, the LGEF and GILR have struggled to sufficiently contribute to LAs' recurrent expenditure needs. Table 9 provides insights into LAs' capital budgets. It shows that their total revenues, from own generated income and the transfers from the central government, are almost completely absorbed by recurrent expenditure, leaving little room to support local investment. The performance of the capital budget is poor, reflecting poor revenue forecasting and crowding out recurrent expenditure.

Table 9: Local authorities: breakdown of revenues and recurrent and capital expenditures, 2017-2019 (budget and actual) (ZMW millions)

Budget item	2017			2018			2019		
	Budget	Actual	Execution rate	Budget	Actual	Execution rate	Budget	Actual	Execution rate
Total revenues	**2,423**	**1,751**	**72.3%**	**2,906**	**2,100**	**72.3%**	**3,169**	**2,061**	**65.0%**
National support (LGEF)	884	863	97.6%	1,064	972	91.4%	1,148	927	80.7%
Own-source revenues	1,418	811	57.2%	1,678	1,017	60.6%	1,819	1,054	57.9%
Total expenditure	**2,451**	**1,682**	**68.6%**	**2,929**	**1,953**	**66.7%**	**3,246**	**2,092**	**64.4%**
Recurrent expenditure	2,058	1,525	74.1%	2,390	1,816	76.0%	2,686	1,911	71.1%
Emoluments		873			1,052			1,093	
Capital expenditure	344	139	40.4%	435	170	39.1%	436	184	42.2%

Source: Data provided by MLGRD in preparation of the World Bank Zambia Devolution Support Program, 2021.
Note: LGEF=Local government equalization fund.

MLGRD provides some resources in its annual budget to support LAs in implementing their investment plans. The capital expenditure line in the 2024 MLGRD budget provided for ZMW 85 million (USD 4.2 million) and ZMW 71 million (USD 3.5 million) to support capital investment for urban and rural councils, respectively.[63] Both funds are used to support projects that typically fall under LAs' domain, such as street cleaning, feeder roads, bus stations and markets.[64]

The CDF, which conditionally transfers funds earmarked for specific sectors and activities, provides for both top-down and bottom-up project identification and prioritization

To further support basic local infrastructure, a CDF was introduced to Zambia's constituencies in 1995 as a means of fostering local development across the country. The CDF provides investment funding to LAs and is not formula-based. In 2022, CDF financing was significantly expanded, from ZMW 1.6 million in 2021 to ZMW 25.7 million (USD 1.5 million) for each of Zambia's 156 constituencies. The allocation per constituency was further increased under the 2023 budget to ZMW 28.3 million (USD 1.5 million), and to ZMW 30.6 million (USD 1.55 million) in 2024. A total of ZMW 4.7 billion (USD 232 million) was allocated to the CDF program under the 2024 National Budget. Table 10 shows the approved budgets to support Las' capital investment through the MLGRD budget head.

[63] Through two programs—the Municipal Infrastructure and the Rural Development programs—as contained in the 2024 National Budget, Yellow Book, MoFNP.

[64] Some other central authorities incorporate local projects on a sporadic basis and when resources are available. For example, Zambia Road Authority, through funding from DP's, supports a feeder road program for LAs.

Table 10: Central transfers to LAs through the MLGRD budget head (ZMW millions)

Program	Program objective(s)	2022 budget	2023 budget	2024 budget
Local governance	To administer and guide LA performance to promote a decentralized local governance system that will contribute to sustainable social-economic development	**5,389**	**6,092**	**6,690**
Local Government Equalization Fund		**1,339**	**1,339**	**1,449**
Grants in lieu of rates		**22**	**22**	**42**
Constituency Development Fund		**4,015**	**4,416**	**4,779**
Community projects		2,420	2,662	2,880
Secondary school & skills development bursaries		792	871	942
Youth and women's empowerment		803	883	955
Municipal infrastructure and support delivery	To facilitate infrastructure development and delivery of municipal services	**68**	**71**	**116**
Capital expenditure		**50**	**55**	**85**
Rural development	To reduce rural-urban inequalities	**130**	**70**	**76**
Capital expenditure		**121**	**68**	**71**

Source: 2024 National Budget, Yellow Book, MoFNP.

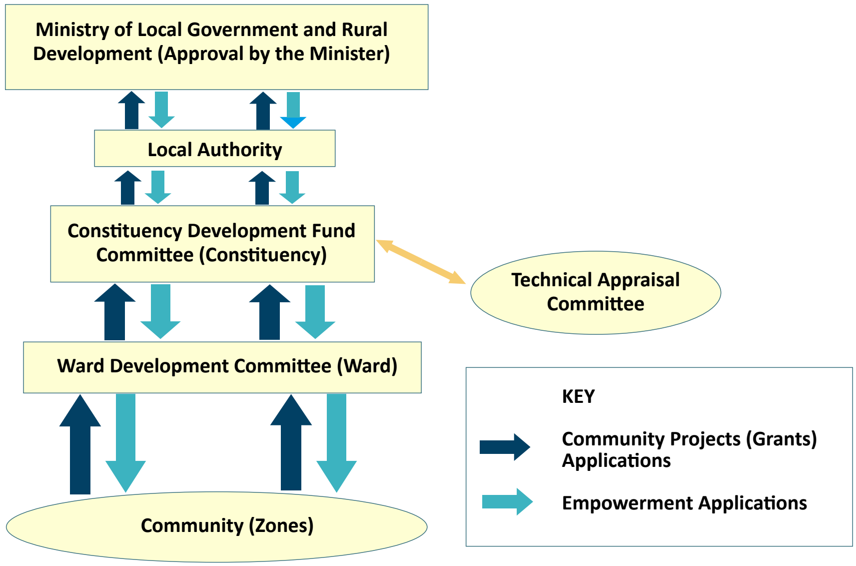
The CDF is a conditional transfer earmarked for specific sectors and activities, rather than an action to improve fiscal decentralization. The MLGRD is the lead agency helping local communities in the identification and prioritization of projects under the CDFs. The Minister of Local Government and Rural Development has issued guidelines on the nature of projects to be funded by the CDF,[65] and LAs are required to distribute the funding—of ZMW 28.3 million (USD 1.4 million) per constituency—as follows:[66]

- 5 percent is set aside for LA administrative costs
- 60 percent funds community projects,673 with 5 percent to be used as a disaster contingency reserve
- 20 percent funds youth and women's empowerment (with 40 percent being grants, 60 percent loans)
- 20 percent funds secondary schools (boarding costs) and Skills Development Bursaries.

The process of project identification and prioritization under the CDF is both bottom-up and top-down. For community-identified projects, LAs publicly seek proposal submissions annually for projects that are to be implemented in the following year.[68] This is done by way of advertisements; public awareness, meetings; displaying posters in public places such as school notice boards, markets, clinics, and churches; public address systems; and through Local Authority websites and social media platforms. The communities identify local needs via the Ward Development Committee (WDC), which is a decentralized development mechanism. The WDCs then compile applications and produce a prioritized list of community projects. A Technical Appraisal Committee, (TAC), based in the LA, provides technical expertise, and assists in costing and engineering support when needed. Once project proposals are collated, they are subject to preliminary screening by the WDCs before they are passed on to the constituency's Constituency Development Fund Committee (CDFC) which then selects the highest priority proposals to be recommended for approval by the Provincial Local Government Officer (PLGO).[69] The CDFC plays the role of internal appraiser, while the PLGO is the external reviewer who approves projects for CDF funding. Where projects are not approved, they should be communicated back to localities from CDFC to WDC including reasons why they were unsuccessful.[70] Figure 46 summarizes the key institutional actors in the project identification, appraisal, and approval process.

[65] Under the Constituency Development Fund (CDF) Act No. 11 of 2018, article 25(b).
[66] MLGRD (2022).
[67] This includes education, water and sanitation, health, roads, agriculture, markets, bus shelters, and security as well as sports and recreation.
[68] As provided for in the 2022 CDF Guidelines (MLGRD, 2022).
[69] As the provincial representative of the MLGRD.
[70] MLGRD Circular 101/22/157 on September 1, 2023.

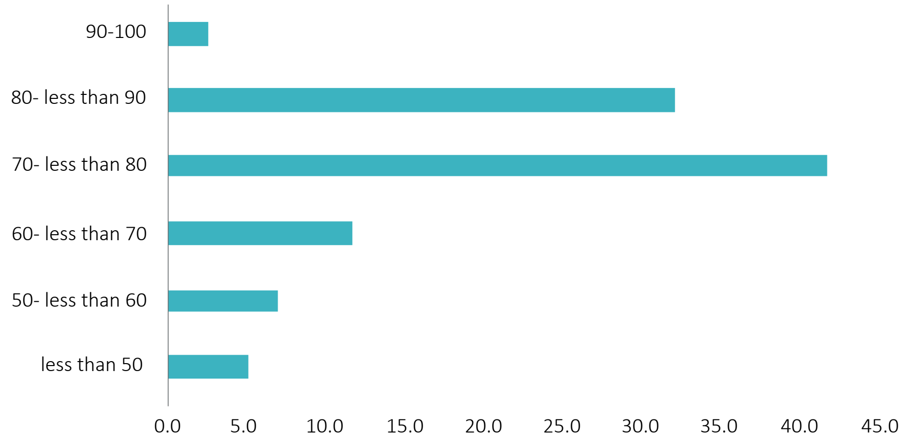
Figure 46: CDF project identification, appraisal, and approval process



Source: MLGRD (2022). CDF Guidelines.

The decentralized approval process for CDF projects has helped to improve the performance of the CDF. The average absorption level of CDF funds was 26 percent in 2022, although absorption was not a consistent challenge across all LAs (Figure 47). One of the challenges identified was the requirement for centralized approval. In December 2022, MLGRD delegated approval to the PLGO.[71] While disaggregated data for 2023 is not available, the quarter 1 report of the National Development Coordinating Committee for the 8NDA shows that the absorption rate has increased to 47percent. While this is an improvement, it still falls short of the target of 75 percent under the 8NDP.

Figure 47: Breakdown of the average absorption rate of CDF funds (percentage), 2022



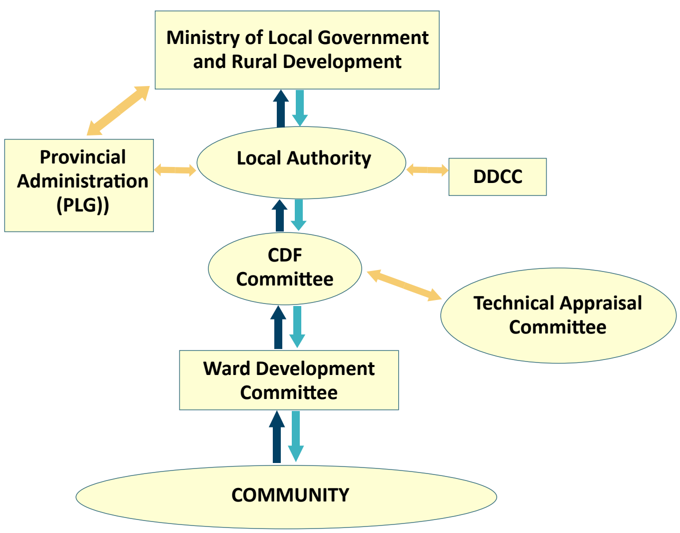
Source: MLGRD (2022). CDF Guidelines.

[71] Gazette Note No. 1683 of 2022.

There are insufficient guidelines to ensure the effective integration of the CDF and local development plans. Poor prioritization will risk fragmenting CDF funds, leading to greater numbers of smaller projects

CDF guidelines encourage an integrated planning approach and information sharing among the institutions conducting project planning at the local level. The District Development Coordinating Committee (DDCC)[72] is responsible for integrated planning and the development of the Integrated Development Plan (IDP), which provides an overall framework for development within a district. IDPs have a lifespan of ten years and are reviewed every five years—linked to the term of office for councilors. After every local government election, the new council must decide on the future of the IDP. The council has the liberty to adopt the existing IDP or develop a new one. The CDF Guidelines state that community projects should be guided by the IDP. Figure 48 illustrates the information flow between the CDF process and the DDCC to capture the integration issues.

Figure 48: Top-down and bottom-up information flow for CDF project integration



Source: MLGRD (2022). CDF Guidelines.

Top-down communication needs to be strengthened, with better disclosure of information to all stakeholders. The CDF Guidelines provide a timeframe within which selected CDF projects should be approved by the CDFC. Once approval decisions have taken place, the CDFC should inform the WDC of unsuccessful applications to allow them to resubmit revised applications. After resubmission, if they cannot be included in the CDF cycle then they can be retained for the following cycle. However, this process is only sporadically implemented, with WDCs often not hearing which projects have not been selected, as the CDFC has likewise not heard from the Town Clerk or Council Secretary, who receives and disseminates advice from the PLGO. Better communication between these bodies, especially between the LA and the CDFC, would contribute positively to resolving issues within this process. The CDF Tracker that MLGRD is developing could play a major role in improving the dissemination of information. It should allow each WDC to view

[72] Under the Urban and Regional Planning Act of 2015, Development Plans guidelines and Exempted Classes Regulations 2023.

the progress of submissions. This tracker could also be linked to the LAs' websites to improve the transparency of the process and foster citizen trust.

It is challenging under the CDF to balance inclusiveness with impact, and to balance meeting immediate needs with long-term development. MLGRD decides annually the priorities for each of the earmarked sectors.[73] This approach seeks to ensure that the CDF can systematically support the closure of basic development gaps across the country. Despite this specific earmarking of CDF funds, all wards are expected to have at least one project included in the submission to the CDFC to demonstrate that the needs of all communities are being considered.[74] While inclusiveness is a critical factor for the governance of project identification, it risks fiscal fragmentation of CDF funds by leading to a greater number of smaller projects being chosen. There is limited guidance provided in the CDF Guidelines on what criteria CDFCs should use for prioritization; only that projects should reflect the urgency and scale of the issue and be aligned with the IDP or other Local Development Plans (Table 11).

Table 11: MLGRD guidance for selecting projects under the CDF

No	Checklist	Yes/No
1	Is the project related to key development priorities of the district included in the Integrated Development Plan or any local development framework?	
2	Is the project benefiting a wide scope of community members?	
3	Signed Minutes of Community meetings	
4	Proof of ownership documents in case of projects involving construction (title deeds, community land)	
5	Is the project feasible?	
6	Is the project located within the Constituency?	
7	Will the project be jointly financed with another Constituency? If yes, name the Constituencies	
8	How many direct jobs will be created by the project?	
9	Recommendation letter from the community leaders i.e. WDC, Councilors	
10	Has the community contribution been agreed upon? If yes, indicate	

Source: MLGRD (2022). CDF Guidelines.

[73] For 2023, the priorities included police motor vehicles, procurement of desks for classrooms, construction and rehabilitation of maternity wings in all health facilities, improving water and sanitation systems in public facilities, provision of electricity for identified public institutions, and procurement of ambulances.

[74] Lowest level of administrative governance structure established by Article 148(1) of the Constitution of Zambia and consolidated in the Local Government Act of 2019. The WDCs officially consist of an elected representative from each Zone, the smallest electoral unit in Zambia, often consisting of areas as small as a couple of villages in rural areas or streets in urban areas; the elected Ward Councilor; several government departmental representatives as well as representatives from marginalized groups (youth, women, those living with disabilities); and representatives of traditional leadership; and the Local Authority.

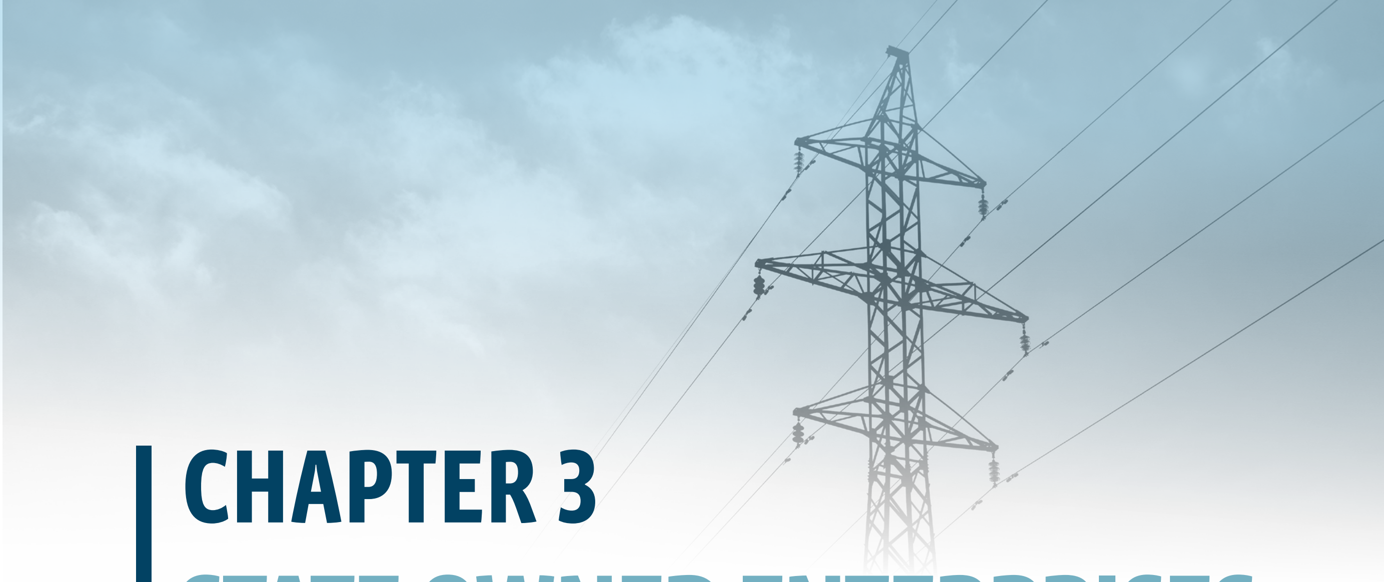
The CDF Guidelines are not sufficient to enable the effective integration of IDPs. Achieving integration between the CDF and IDPs is not a straightforward task. There is a need to produce procedural guidance to enable the workflows of the CDFCs to effectively reflect the priorities under the IDPs. The different timeframes, i.e. the ten-year IDP (and its five-year updates) and the annual submission of the needs of wards, do not help to easily integrate the IDP into the CDF process. The two processes (IDP and CDF) also lack robust data to support the building of coalitions and consensus among citizens around the community's immediate needs, as well as to address longer-term development gaps.

2.5 POLICY RECOMMENDATIONS

Table 12: Matrix of recommendations

Policy Problem	Short-term Actions	Medium-term Actions
Weak data governance and use, which undermines an evidence-based PIM process	Develop a single repository of projects in MoFNP. Ensure consistency of financial data Ensure all MPAs are using IFMIS Track project portfolio against capital budget	Maintain data and data systems Develop a data culture Create data platforms Build data use for citizen engagement
Weak budget practices contribute to poor project quality at entry	Integrate financial planning of capital budgeting into the MTEF Develop baseline budgeting Develop an integrated approach to improving strengthening of project quality at entry across all MoFNP departments.	Split the challenge function between PIPD and BO. BO should provide five-year capital budget envelope to PIPD, so it can expand its review function
Inadequate coordination and insufficient enforcement impact project implementation	Introduce a single coordination committee which includes projects funded by CPs as well as other sources. Commence coordination with budget discussions and continue it throughout the project management cycle	Develop an action plan to strengthen enforcement of PIM legislation, regulation and guidelines including a change management approach and integrating strong leadership from senior management.

Policy Problem	Short-term Actions	Medium-term Actions
Poor systems and capacities for project prioritization and implementation at the local level risks inefficient spending of the significantly increased funds from the central and political levels, and do not support citizen engagement in public investment decisions.	Establish a local authorizing environment for local resources including HRM and funds to strengthen accountability. Communicate to WDCs, CDFCs and LAs criteria for the prioritization of projects. Develop procedural manuals to support a more systematic approach to citizen engagement.	Consider decentralized clearance of contracts Develop procedures for how to integrate WDP, IDP together with medium-term development priorities for communities with the approval process for CDF projects. Develop mechanisms for information sharing between WDCs, CDFCs and LAs on issues such as project approval, technical evaluation, procurement, fund disbursal and implementation and a standardized tool for monitoring and evaluation.



CHAPTER 3
STATE-OWNED ENTERPRISES

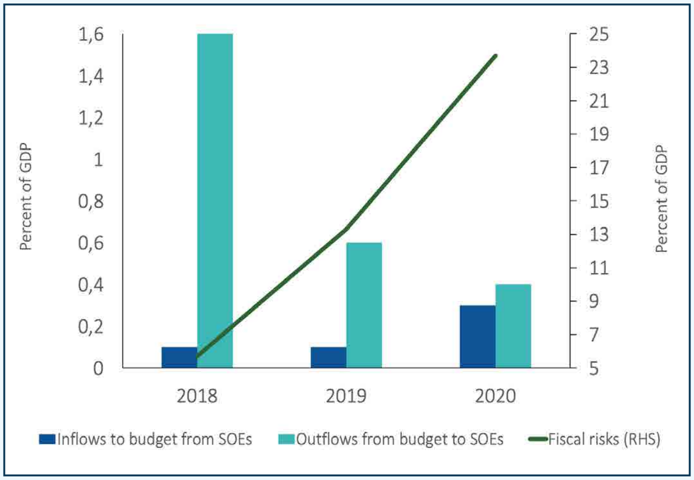
This chapter provides an overview of the SOE landscape in Zambia. It then analyzes the fiscal costs and risks posed by the SOE sector with a more in-depth analysis of the energy utility ZESCO. The chapter also looks at SOEs' corporate governance and accountability mechanisms, but due to data constraints it does not study specific SOE reforms beyond governance and oversight. Finally, it provides broad reform options for the sector to help unlock transformational public sector investments, with more granular recommendations for ZESCO.

Main messages

Zambia's state-owned enterprises (SOEs) constitute a cornerstone of the economy, spanning critical areas like banking, finance, transportation, energy, and infrastructure. The SOE portfolio currently comprises 48 SOEs, an increase from 30 in 2013. Despite their strategic importance, many SOEs are underperforming, with roughly half operating at a loss, posing significant fiscal risks for the government. In 2020, SOEs' total assets equaled 49 percent of the country's GDP, but generated net losses equivalent to around 4 percent of GDP, largely due to unsustainable investments and below-cost provision of goods and services, exacerbating fiscal vulnerabilities.

The energy and infrastructure sectors, spearheaded by entities like ZESCO, wield significant influence within the SOE portfolio in terms of both assets and liabilities. While some SOEs demonstrate profitability, others—like Zambia Telecommunications (ZAMTEL) and Zambia Railways Limited—consistently operate at a loss, grappling with challenges such as maintaining unprofitable infrastructure. Despite employment in SOEs accounting for 1.5 percent of the formal sector workforce, concerns persist regarding their heavy reliance on debt financing and low capitalization levels, which hinder operational efficiency and market competitiveness.

Figure 49: SOEs significantly drain the fiscus



Source: Zambian authorities and World Bank staff calculations

SOEs in Zambia incurred an annual fiscal cost of USD 185.1 million over 2018-2020, primarily driven by government capital injections aimed at alleviating financial struggles within the sector. Entities like ZESCO receive significant funding to address energy supply gaps to meet demand. This costly support, coupled with declining equity-to-asset ratios—down to 23 percent in 2020 from 47 percent in 2018—underscores financial stability risks within the sector. However, these subsidies lack efficient targeting, encompassing sectors like airports, fuel, and telecommunications, potentially failing to benefit the poor effectively. Meanwhile, estimated annual fiscal risks related to SOEs reached nearly an annual average of USD 3 billion, 14.2 percent of GDP, over 2018-2020, primarily attributed to capital injections and government-guaranteed debt. Despite government injections totaling USD 124 million over 2019-2020, addressing these challenges requires comprehensive assessments and strategic decisions to mitigate fiscal risks and ensure sustainable SOE operations in Zambia.

The fragmented SOE regulatory framework complicates financial monitoring and the assessment of fiscal risks. Zambia lacks a centralized regulatory or institutional framework responsible for consolidating financial data on SOEs. Only SOEs' guaranteed debt is regulated through the Public Debt Management Act, which subjects debt to approval by the National Assembly and close monitoring. Despite regulations mandating SOEs to produce financial statements and share them with shareholders, including MoFNP, enforcement is inconsistent. Failing to assess the fiscal risks associated with SOEs prevents strategies from being developed to address them. Therefore, it is vital to at least assess the fiscal risks of the major SOEs (or those experiencing chronic financial difficulties) to manage potential fiscal risks effectively. Critically, this assessment should be shared with the National Assembly to disclose the extent of the fiscal risk and gain support for improving the performance and oversight of SOEs. Furthermore, active SOE fiscal risk management would enhance fiscal transparency.

The disjointed legal and regulatory framework for the governance of SOEs also complicates broader oversight and accountability. The Companies Act of 2017 is the primary framework, supplemented by various other laws, which jointly do not adequately address matters affecting SOE governance. The creation of the Industrial Development Corporation (IDC) in 2014 brought about a notable reform to the oversight structure. However, challenges remain due to a dual reporting system between MoFNP and IDC and the lack of explicit laws governing the relationship between SOEs and their shareholders.

Performance monitoring, board appointments, transparency, and public procurement emerge as key areas with notable governance gaps. The weak productivity and lack of a systematic approach to performance evaluation have significantly hindered SOE performance in Zambia. The appointment process for board members often lacks transparency and is influenced by political affiliations which, combined with the absence of performance contracts, results in the inability of shareholders to hold the boards of SOEs accountable and effectively monitor company performance. SOEs also do not adhere to international standards in financial and non-financial reporting, constraining transparency. Despite efforts to improve the legal framework and implement the e-Government Procurement system, challenges such as delays, inefficiencies, and corruption persist in procurement processes. To improve the effectiveness of SOEs in Zambia, it is essential to address these governance challenges through regulatory harmonization and strengthening oversight mechanisms.

3.1 INTRODUCTION

The privatization initiatives that commenced in the 1990s have recently transitioned towards increased state control of the economy through state-owned enterprises

Following independence in 1964, the Zambian economy had a strong state footprint, with SOEs present in most economic activities. SOEs were viewed as the main drivers of economic growth and development. Since the Mulungushi Reforms in 1968, Zambia has been employing the SOE model to direct investments and oversee operations in critical sectors of the economy.[75] At that time, around 144 SOEs operated in diverse markets, including the main strategic economic sectors (electricity, mining, finance, transport, and telecom), as well as other sectors typically operated by private sector firms (agriculture, banking, real estate, and tourism).

During the 1990s, the government embarked on an ambitious privatization program, but has reversed this trend in more recent years. SOEs' weak performance and low efficiency translated into significant losses and the accumulation of arrears over the decades following independence. As a result, a first major wave of privatizations took place over 1992-2000, when 113 out of 144 SOEs were privatized. However, since 2013, 13 new SOEs have been established, 9 of which have the state as the principal shareholder (more than 50 percent participation).

[75] The Mulungushi Reforms of 1968 included a comprehensive set of economic and political measures aimed at reducing the country's dependance on foreign aid, promoting local ownership, and controlling local resources.

SOEs represent significant fiscal burdens due to unsustainable investments

Today, although SOEs play an important role in the Zambian economy, they drain the fiscus and expose the government to substantial fiscal risks. SOEs in Zambia operate in a range of industries. They continue to dominate vital sectors, including banking and finance, transport, communications, manufacturing, energy, and infrastructure. There are 48 SOEs in Zambia, 30 of which are solely owned by the government and 13 under shared ownership (with a minority stake for the government in 9 of them). The performance of these SOEs has fallen short of expectations, with roughly half operating at a loss, placing a significant fiscal burden on the central government budget. In 2020, SOEs (financial and non-financial) possessed assets worth USD 8.8 billion (49 percent of the country's GDP) and net losses amounted to 4 percent of GDP in the same year.

SOEs' quasi-fiscal activities, such as providing goods and services at below-cost prices and engaging in financially unviable investments, pose additional fiscal risks. To finance these ventures, SOEs have resorted to taking on debt, some backed by sovereign guarantees. The adjusted debt of SOEs currently stands at 8.6 percent of GDP, and the debt-to-equity ratio is a whopping 179 percent, indicating a highly leveraged sector. With such substantial indebtedness and underwhelming operational outcomes, the sector will likely require more state intervention to sustain ongoing operations. Furthermore, SOEs have a distorting effect on the markets throughout the economy.

3.2 SOE LANDSCAPE

SOEs played a major role in strategic economic sectors and private sector-managed sectors, with a focus on energy and infrastructure

In 2023, SOEs were operating in strategic economic sectors such as utilities and finance, but also in sectors like transport, communications, and manufacturing that are usually run by private enterprises. These diverse sectors play a crucial role in driving economic growth and development in the country, while also providing essential services to the population. Energy, mining, and agriculture hold significant importance within the SOE portfolio, contributing to the country's electricity supply, natural resource extraction and primary sector (Figure 49). Most SOEs in Zambia operate in a competitive market, except ZESCO which is a monopoly, although the government has been promoting an open-access regime to allow private players to use ZESCO's network in order to reduce the state monopoly and deepen energy trading in the country. Further, there are some sectors that have both public and private sector presence. For instance, the telecommunications sector is dominated by two private companies, AIRTEL and MTN, and one SOE, namely Zambia Telecommunications (ZAMTEL).

Energy SOEs account for around two-thirds of the total SOE assets (Figure 50). In 2020, their portion of SOE assets amounted to approximately USD 4 billion (or 22 percent of GDP). The sector comprises large SOEs, like the energy utility ZESCO, as well as the INDENI Energy Company (Annex 3C). Mining makes up the second largest sector in terms of total assets, accounting for around USD 1.4 billion, or 8 percent of GDP and 20 percent of the overall assets. The main SOE in this sector is Zambia Consolidated Copper Mines Investment Holding (ZCCM-IH).

A few SOEs are listed on the securities exchange, supporting market development. These include the Zambia National Commercial Bank (ZANACO), Zambia Copper Consolidated Mines Investment Holding (ZCCM-IH), and the Zambia Forestry and Forest Industries Corporation (ZAFFICO). The Lusaka Stock Exchange (LuSE) has facilitated local and portfolio investment, fostering a good corporate governance culture and wealth creation.

The World Bank estimates that, over 2018-2020, average annual SOE losses stood at USD 128.2 million. However, the data made available to the World Bank excludes comprehensive information on SOE debt arrears, SOE on-lending, government arrears to SOEs, arrears between SOEs, and some subsidies from the government to SOEs.[76] During this period, losses were mainly attributed to ZESCO, ZAMTEL, Zambia Railways Limited (ZRL), and Tanzania Zambia Mafuta (TAZAMA). For instance, the continued losses being posted by ZAMTEL were largely attributed to the constant maintenance of social telecommunication towers in rural areas, with no positive economic return. Other SOEs, such as ZRL, have continued to post losses due to the poor state of infrastructure, old locomotives, and a bloated wage bill which accounts for over 50 percent of its total expenditure. However, it wasn't possible to analyze the entire SOE portfolio due to missing financial reports. Some SOEs have not produced any reports, while others have not had their reports audited. However, some SOEs experienced profits, including Zambia Copper Consolidated Mines Investment Holding (ZCCM-IH), ZAFFICO, and INDENI.

Zambia's SOEs have accumulated substantial debt and unpaid dues, but employ only a small share of the total formal sector workforce

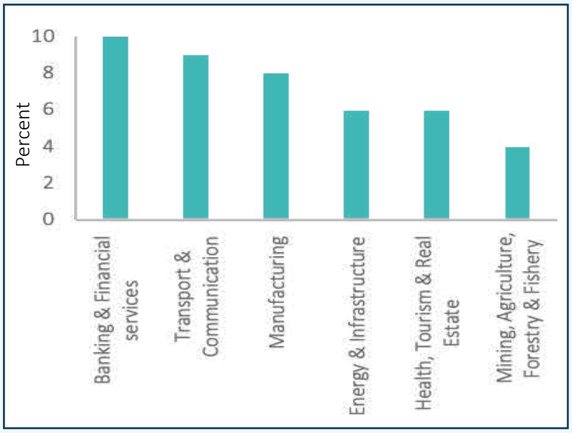
Zambia's SOEs have accumulated a substantial amount of guaranteed debt and arrears. As of December 2022, the guaranteed debt stood at USD 1.52 billion, with 92.7 percent attributed to ZESCO, which includes its participation in the Kafue Gorge Lower power project. ZESCO has also amassed arrears of USD 1,873 million to various suppliers and independent local and international power producers (IPPs). Furthermore, as of March 2022 outstanding arrears on government loans amounted to USD 64.5 million, with USD 4.14 million being external and USD 2.31 million domestic. These figures highlight the urgent need for ZESCO to improve its financial sustainability to address its increasing debt and arrears burden.

In 2022, SOEs had a workforce of approximately 13,000 individuals in Zambia. This accounts for 1.5 percent of the total formal sector workforce, which amounts to 0.85 million workers. However, the available data is not comprehensive, as employment information for 8 of the 32 SOEs is missing. Most SOE employees are engaged in the energy sector (7,100 individuals). Following closely behind are the banking and financial services sector, with 2,130 employees, and the infrastructure sector, with 1,686 employees. SOEs in other sectors have smaller workforces (Figure 51).

[76] Information on these financial flows was requested but not provided to the World Bank for this exercise (see Box 3).

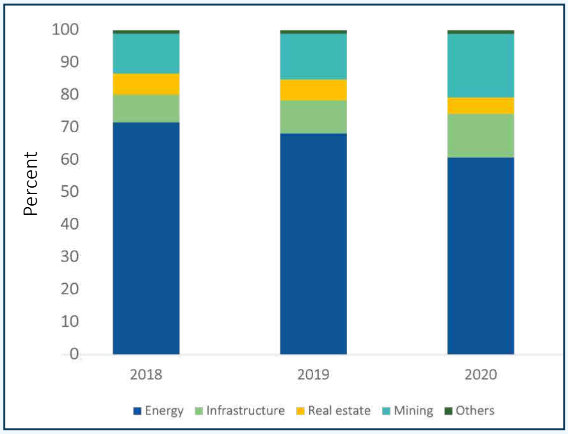
State control of the economy through SOEs is particularly noticeable in energy and infrastructure

Figure 50: Distribution of SOEs by sector (number)



Source: Zambia authorities and World Bank staff calculations

Figure 51: SOEs' assets distribution, 2018-2020



Source: Zambia authorities and World Bank staff calculations

There has been a rise in the number of SOEs reporting losses or failing to produce financial reports over the past few years, while the labor force is dominated by energy and infrastructure....

Figure 52: SOE employment shares by sector (percentage), (2022)

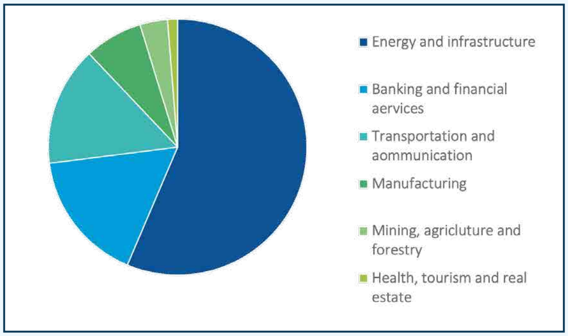


Figure 53: Share of SOEs reporting profits/losses and those without data (percentage), 2018-2020

...while persistent absence of profitability within the SOEs sector has weakened their financial independence

Figure 54: SOE profitability (USD million) (2018-2020)

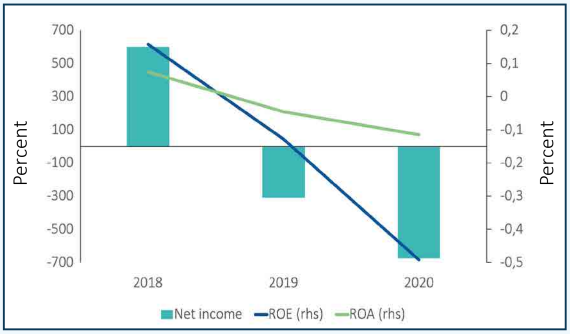
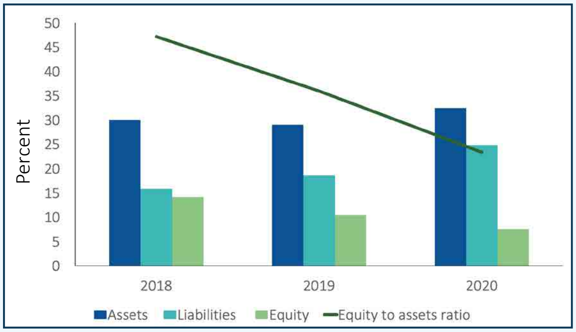


Figure 55: Net equity, assets, and liabilities of non-financial SOEs (percent of GDP), 2018-2020



Source: Zambia authorities and World Bank staff calculations

SOEs' lack of profitability leads to financial support and recapitalization from the treasury, with a significant portion going to the energy sector and the IDC

Zambia's SOEs receive financial support and recapitalization from the treasury, with a significant portion allocated to the energy sector and the IDC. In 2020, the government allocated USD 159.2 million for recapitalization, which coincided with the COVID-19 period and its adverse effects on various sectors of the economy. Most SOEs encountered pandemic-related difficulties and sought government assistance. During this period, ZESCO was the largest beneficiary of government transfers through recapitalization, receiving a total of USD 24.1 million between 2019 and 2020, primarily aimed at reducing energy generation deficits and supporting service delivery.

SOEs' unprofitability partly reflects low capitalization levels, which fuel debt financing. The equity-to-asset ratio plummeted from 47 percent in 2018 to 23 percent in 2020 (Figure 54). As a result, the shareholders own around one-third of SOE assets, with the rest being funded through borrowing. The low capitalization levels of SOEs can also have negative implications for their operational efficiency and ability to compete in the market. Without sufficient capital investments, SOEs struggle to modernize their infrastructure, upgrade their technology, or expand operations, impacting their ability to generate sustainable profits. Meanwhile, the sector faces a substantial debt burden, as meager profits have led to a heavy dependence on loans to fund capital expenditures. This heavy reliance on debt financing poses significant risks to the financial stability of SOEs, as high levels of leverage can make them vulnerable to economic downturns or changes in interest rates. Finally, the lack of profitability can also hinder SOEs' ability to attract new investors or raise additional capital through equity offerings.

Despite the financial challenges, there is a lack of thorough monitoring of SOEs' financial records, which are overseen by two different entities

Given their weak financial positions, SOEs have been in a loss situation. Between 2019 and 2020, SOEs averaged losses of USD 492 million per year. ZESCO's recent performance supports the sector's profitability. Between 2019 and 2020, ZESCO experienced notable losses, partly due to the impact of the COVID-19 pandemic and currency devaluation, contributing to the sovereign default. The depreciation of the local currency had a negative effect on SOEs, with debts denominated in U.S. dollars and revenues in local currency. Additionally, the subpar profitability and performance indicators (ROE, return on equity; and ROA, return on assets) of several SOEs highlight potential issues such as inefficiency, poor financial management, lack of competitiveness, infrastructure and capital limitations, political interference, and economic obstacles.

The fragmented supervision requirements for SOEs restricted the oversight of their financial situation. Within the MoFNP, the Investments and Debt Management (IDM) unit is solely responsible for monitoring and supervising SOE operations. On the other hand, the IDC is responsible for supervising and monitoring 36 SOEs on behalf of the MoFNP and must report on their performance. However, due to a lack of clearly defined responsibilities between the MoFNP and the IDC regarding SOE governance, there is dual reporting which undermines effective oversight and hinders the timely ability of supervision bodies to identify and address issues or risks. Furthermore, it can result in fragmented and disjointed oversight of SOEs and create opportunities for non-compliance and misconduct to go undetected, posing risks to SOEs' financial stability and integrity.

3.3 ASSESSMENT OF SOES' FISCAL COSTS AND RISKS

Due to their unstable financial situation, SOEs represent considerable fiscal costs and risks

This assessment of SOEs' fiscal costs and risks is not comprehensive. There are three main gaps. Firstly, the monitoring scope only includes wholly and majority state-owned SOEs, excluding others that could carry significant financial burdens or risks. Secondly, the data available is not comprehensive enough to capture all financial costs and risks that SOEs might pose because it excludes comprehensive data on SOE debt arrears, SOE on-lending, government arrears to SOEs, arrears between SOEs, and transfers from the government to SOEs. This data was not provided by the authorities at the time of writing this report (Box 3). Lastly, there are some data discrepancies that could not be reconciled with the data made available. For instance, the information in SOEs' audited financial reports may not always match the data provided by the MoFNP, particularly regarding subsidies, capital injection and debts.

BOX 3: SOE fiscal costs and risk assessment: Scope, data limitations, and methodology

The purpose of this assessment is to identify strategies for enhancing performance and promoting good governance of SOEs. This report adopts the widely accepted definition of SOEs as entities owned or controlled by the government which operate on a commercial basis. The definition is derived from the "Approach Paper World Bank Group Support for the Reform of State-Owned Enterprises, 2007-2018: An IEG Evaluation." According to this definition, an entity is considered to be an SOE if it meets the following criteria: (1) the government exercises significant control through full, majority, or substantial minority ownership; (2) the entity has legal and financial autonomy from the state, characterized by a distinct legal personality, specific operational rules defined under a legal regime, and budgetary autonomy; and (3) the entity operates in the productive sector, encompassing both financial and non-financial services.

The analysis focuses on 19 commercial SOEs. Financial analysis is only performed on 13 non-financial SOEs (Annex 3B). The selection of the SOEs was based on several criteria, namely: data availability (i.e., audited financial statements); asset value of the SOE (total asset value at period “t”); and sector (i.e., economic sector relevance).

The analysis draws mainly on the SOEs’ audited annual financial statements but has significant data limitations. Data unavailability meant that the study focused on 2018-2020, the period when audited financial reports were available for a larger number of companies. Some SOEs have not produced any financial statements, while others have not had their financial statements audited. Essential data was unsuccessfully requested by the World Bank, including comprehensive SOE debt arrears, SOE on-lending, government arrears to SOEs, arrears between SOEs, and subsidies from the government to SOEs. Results should therefore be interpreted with this caveat.

The study applied the diagnostic toolkit from the World Bank’s Integrated State-Owned Enterprise Framework (iSOEF) in assessing the performance of the SOEs. The iSOEF is a tool recently developed by the World Bank to support comprehensive evaluation of SOEs’ economic and fiscal implications. It comprises four modules designed to encompass crucial aspects of SOEs, with one module tailored to sector-specific considerations, and three being cross-cutting thematic modules covering the broader context in which SOE reform occurs. This analysis primarily leverages two iSOEF modules that address pivotal aspects of SOEs: Module 2 (“Fiscal Impact”), which assesses the primary fiscal costs and risks associated with SOEs in Zambia, and Module 4 (“Corporate Governance and Accountability Mechanisms”).

Between 2018-20, Zambia's SOEs represented an annual fiscal cost of approximately USD 185.1 million. This net outflow means that, taken collectively, SOEs are subsidized each year, albeit in an ad-hoc manner. Besides regular capital injections, firms like Tanzania Zambia Mafuta (TAZAMA) Pipelines Limited and Zambia State Insurance Corporation (ZSIC) receive ad-hoc funds for day-to-day operational costs, such as payroll. Companies like Zambia Railways Limited (ZRL) and Zambia Daily Mail (ZDM) have experienced financial difficulties since 2018. Furthermore, ZESCO disclosed substantial losses, totaling approximately USD 1.5 billion, between 2018 and 2020 and has received tax credits amounting to USD 494 million over the same timeframe. SOEs' fiscal cost is mainly driven by the government's capital injection in response to the companies' financial struggles. However, as these subsidies—which have encompassed support to airports, fuel prices, and telecommunications—may not be efficiently directed, they can have a regressive impact and fail to benefit the poor. The annual net budgetary outflow would be enough to fund 7,100 primary schools.

A preliminary evaluation of SOEs' fiscal risks between 2018 and 2020 estimated annual liabilities amounting to almost USD 3 billion (14 percent of GDP) (Table 13). The most significant fiscal risks with a potential financial impact are attributed to capital injections for SOEs with a weak financial footing, including the biggest one (ZESCO). Following closely behind is government-guaranteed debt, which on average amounted to 6.5 percent of GDP over 2018-2020. While the data limitations outlined in Box 3 mean this estimate is not final or comprehensive, it does represent an initial assessment of the potential fiscal risk that SOEs raise for the government. In addition to lack of data, these potential fiscal risks are subject to change over time, requiring the government to regularly update, supplement, and refine this assessment.

Table 13: SOEs' fiscal costs and risks, 2018-2020, in USD million

	2018	2019	2020
A. Inflows to budget from SOEs	**23.1**	**18.2**	**49.0**
Tax payment	15.8	11.8	45.0
Dividend payments to state	7.3	6.5	4.0
B. Outflows from budget to SOEs	**430.7**	**134.1**	**80.9**
Equity/capital injection	-	57.9	66.0
Arrears with other SOEs	1.0	0.9	0.5
Subsidies	6.3	1.6	2.8
Tax credit	423.4	73.7	11.6
C. Net budgetary flows	**(407.7)**	**(115.9)**	**(31.9)**
D. Fiscal risks	**1,535.1**	**3,094.0**	**4,277.8**
Guaranteed debt	1,161.1	1,529.0	1,560.4
On-lending	61.3	71.7	52.9
Tax arrears	184.8	169.5	106.8
Other costs and risks	127.9	1,323.9	2,557.7

Source: Zambia authorities and World Bank staff calculations.

SOEs' increasing debt-to-equity ratio trend raises significant concerns about fiscal risks. Non-financial SOEs' debt-to-equity ratio has been high, at around 179 percent on average over 2018-2020, which can be seen as a negative sign by investors and lenders. A continuously increasing debt-to-equity ratio indicates that the SOEs are relying heavily on borrowed funds to finance their operations, which can lead to a higher risk of default and financial distress. Additionally, a high gearing ratio can limit the ability of SOEs to invest in new projects and expand their operations, which can hinder economic growth and development. Shareholders may be concerned about the increased financial risk associated with a high gearing ratio, as it can negatively impact the value of their investments. Creditors may also be more cautious about lending to SOEs in Zambia, leading to higher borrowing costs and reduced access to credit. The government, as the owner of these enterprises, may face increased pressure to provide financial support or bailouts in case of financial distress. As a result, the government constantly injects capital, which amounted to USD 183 million over 2019-2022. Moreover, a high gearing ratio can also have implications for the broader economy, as it can affect the availability of credit, interest rates, and overall investor confidence.

Table 14: SOEs' fiscal costs and risks, 2018-2020, percent of GDP

	2018	2019	2020
A. Inflows to budget from SOEs	**0.1**	**0.1**	**0.3**
Tax payment	0.1	0.1	0.2
Dividend payments to state	0.0	0.0	0.0
B. Outflows from budget to SOEs	**1.6**	**0.6**	**0.4**
Equity/capital injection	-	0.2	0.4
Arrears with other SOEs	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0
Tax credit	1.6	0.3	0.1
C. Net budgetary flows	**(1.5)**	**(0.5)**	**(0.2)**
D. Fiscal risks	**5.7**	**13.3**	**23.7**
Guaranteed debt	4.3	6.6	8.6
On-lending	0.2	0.3	0.3
Tax arrears	0.7	0.7	0.6
Other costs and risks	0.5	5.7	14.2

Source: Zambia authorities and World Bank staff calculations.

ZESCO: An in-depth analysis

ZESCO, a state-owned enterprise wholly owned by the government, is responsible for generation, transmission, distribution, and planning of electricity projects in Zambia. ZESCO is the largest player in the electricity market, and the unique off-taker and bulk retailer of electricity on the national interconnected system. The company has signed agreements with independent power producers (IPPs) to diversify its generation mix and increase generation capacity. These agreements mostly depend on a market guarantee in the form of state-backed contracts. Currently ZESCO enters directly into power purchase agreements without government involvement.

Besides ZESCO, other private players are involved in the electricity market in Zambia. Despite the dominance of ZESCO, Zambia has successfully attracted private participation in various segments of the electricity market. Notable among them are the Copperbelt Energy Corporation (CEC) and the Northwestern Energy Corporation (NWEC), involved in the transmission and distribution services. Both companies effectively manage network assets in mining provinces, ensuring efficient electricity sector functioning. These entities operate under an exclusive regime in their areas, buying energy in bulk from ZESCO to serve their clients. The CEC manages the transmission and distribution service in the Copperbelt Province, supplying electricity to mining companies, corporate clients, retailers, and non-mining entities, and is the single largest buyer of electricity from ZESCO. CEC also provides power on ZESCO's behalf to some of ZESCO's retail customers in the Copperbelt Province. The NWEC also purchases power from ZESCO under a 15-year PPA (power purchase agreement) for distribution and supply of electricity to the mining townships of Lumwana, Kalumbila, and Kabitaka.

ZESCO's weak profitability is mainly due to weak cost-recovery, operational challenges, and arrears

ZESCO is facing anemic profitability, mostly driven by a mix of non-cost-reflective tariffs, operating inefficiencies, and arrears. ZESCO's gross profit margin witnessed a decline from 68 percent in 2014 to 43 percent in 2022 as power purchase costs surged (to USD 410 million in 2019 from USD 65 million in 2014) and tariffs did not reflect costs. The mining industry accounts for 45 percent of ZESCO's total revenue, with domestic customers making up 32 percent and exports contributing 23 percent. Residential tariffs are set at less than half of cost recovery and the average tariff was also substantially below cost recovery until 2020. The company faces operational inefficiencies, with ZESCO's transmission and distribution losses estimated at 22 percent. Increasing customer arrears, especially from the mining sector—which accounts for nearly half the sales, with the collection rate at 72 percent in 2022—have also dented profitability.

ZESCO's production expenses are increasing due to rising power purchase costs—exacerbated by climate change—and currency devaluation, while the company continues to struggle with collecting revenue

The surge in overall production costs—to USD 648 million in 2022 from USD 443 million in 2018—was caused by limited adjustments for increased power purchase costs and currency depreciation. The substantial depreciation of the Zambian kwacha (from ZMW 10.5/USD in 2018 to ZMW 20/USD by 2021 and to ZMW 25.72/USD in 2023) has weighed on the overall energy production costs, as a significant portion of ZESCO's expenses are denominated in US dollars.

ZESCO has also seen increasing operating costs due to increasingly expensive power purchases and a growing headcount. Furthermore, the country's heavy reliance on hydropower made it particularly susceptible to the adverse effects of the 2015-2016 El Niño-induced drought. This shock led the government to direct ZESCO to procure emergency power imports, including from a Karpowership barge in Mozambique, albeit supported with only a partial subsidy. Additionally, since 2016, aiming to diversify the generation mix and boost capacity ZESCO has entered into costly power purchase agreements with domestic IPPs in US dollar terms.

ZESCO continues to face challenges in collecting domestic revenue, particularly from the mining sector and public sector clients (Figure 55). This is evidenced by a significant increase in gross receivables, from USD 287 million in 2014 to USD 719 million in 2022, alongside a decline in net receivables over the same period. This situation has led to substantial bad debt expenses and a notable decline in earnings before interest, taxes, depreciation, and amortization (EBITDA). While efforts to address public sector arrears have been made through the arrears dismantling strategy,[77] ongoing collection issues persist in the mining sector, notably with the Konkola Copper Mine (KCM) accounting for a significant portion of outstanding receivables. Negotiations are underway with KCM's original investor to restore operations, address payment concerns with ZESCO, and potentially clear historic arrears, with a verbal agreement reported and a legally binding agreement anticipated in the near future.

ZESCO is facing a challenge with increasing long-term debt, which has been exacerbated by a period of losses from 2016 to 2020 despite the tariff increase in 2020

To address its financial woes, in 2020 ZESCO implemented a tariff hike of 113 percent on average for its customers paying in Zambian kwacha. Coupled with a notable appreciation of the kwacha, this led to a rebound of the net profit margin to 39 percent in 2021. However, this momentum was short-lived as escalating power purchase costs and kwacha depreciation pushed the net profit margin down to 5 percent in 2022. Notwithstanding, the government has shown commitment to move to cost-reflective tariffs as evidenced by the approval of a White Paper on tariff reform, including principles for tariff setting, along with the Energy Regulation Board (ERB) operational guidelines for Multi-Year Tariff Framework (MYTF). This will allow for a predictable tariff glide-path with automatic adjustments, allowing ZESCO to pass on reasonably incurred costs such as fluctuations in currency exchange rates or fuel prices. In April 2023, the ERB approved ZESCO's application for a tariff adjustment for certain categories of retail customers.[78]

ZESCO is grappling with mounting long-term debt relative to equity, exacerbated by a period of negative profits from 2016 to 2020 (Table 15). Outstanding debt amounted to USD 2.2 billion in September 2023, with on-lent loans from the central government amounting to USD 406 million, USD 197 million to commercial lenders, and USD 1.6 billion as government-guaranteed loans.

[77] The Dismantling of Domestic Arrears Strategy was launched in 2022 by the MoFNP. It aimed to authenticate bills, ensure timely delivery of goods and services, establish a payment schedule, implement a transparent and predictable system, and halt the accumulation of arrears. Further, it was complemented by Cabinet Circular No. 6 of 2022, which aimed to achieve the desired outcome of the strategy.
[78] To protect low-income customers, the ERB rejected ZESCO's request to reduce the lifeline tariff band for residential customers.

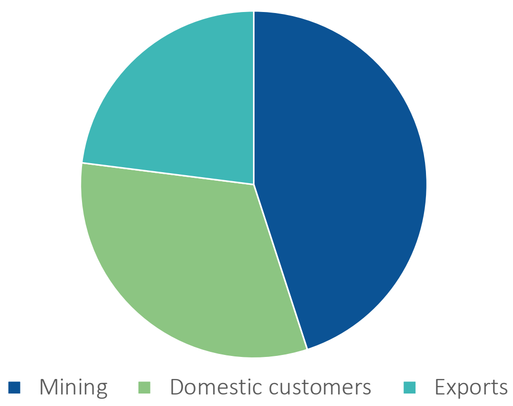
Notably, a substantial portion of the total long-term debt, around USD 370 million, stems from government-issued loans earmarked for rural electrification and other social projects which do not align with ZESCO's commercial objectives. Discussions are underway between the MoFNP and ZESCO to convert these loans into equity. This operation would relieve ZESCO of its obligation, and ensure alignment with its commercial mandate, while the remaining long-term debt comprises government-guaranteed and commercial debt.

Table 15: ZESCO: Key financial indicators

	2018	2019	2020	2021	2022
Shareholders' equity (USD M)	1,918.2	1,735.8	280.8	689.7	857.6
Total liabilities (USD M)	3835.7	3805.5	3165.7	2769.6	3425
Debt guaranteed (USD M)	1099.6	1425.7	1442.9	1416.5	1358.5
Gross profit margin (%)	45	40	45	55	43
EBITDA margin (%)	10	-8	-15	18	24
Net profit margin (%)	14	-39	-84	39	5
ROE (%)	7	20.9	239.2	59	6.25
ROA (%)	3	6.4	20.3	15	1.25

Source: ZESCO financial statements

Figure 56: ZESCO: Revenue breakdown (2022)



Source: ZESCO financial statements.

3.4 CORPORATE GOVERNANCE AND ACCOUNTABILITY

This section assesses SOE governance practices in Zambia, focusing on the legal framework's six dimensions of SOE corporate governance. These are: (1) the legal and regulatory framework; (2) ownership and oversight function; (3) performance monitoring; (4) boards of directors and executive management; (5) transparency and disclosure; and (6) procurement. While the practices of individual countries vary, there is broad international consensus on the components of good SOE governance. Drawing on the World Bank's iSOEF tool and the Organisation for Economic Cooperation and Development (OECD) Guidelines for SOEs,[1] the key components of governance used in the assessment are summarized in Box 4.

Good corporate governance is the foundation of stable and financially healthy corporations. Compared with private sector companies, SOEs face distinct governance challenges which have direct adverse effects on their performance. These challenges include multiple principals, competing goals and objectives, excessive protection from competition, undue political interference, and low levels of transparency and accountability, among others. Given the challenges SOEs face and considering their strategic role in providing key infrastructure and public goods and services, it is vital to ensure that SOEs follow good corporate governance practices.[2]

1 OECD (2015).
2 World Bank (2014).

BOX 4: Overview of Assessment Criteria for Governance of SOEs in Zambia

Legal framework: A well-defined and coherent legal framework is crucial for the effective governance of SOEs. This framework should outline clear and non-contradictory obligations, encompassing all significant requirements to facilitate compliance and enforcement.

State ownership arrangements: It is imperative for the state to fulfill its role as an active and responsible shareholder, with clear accountability for its ownership responsibilities. These ownership functions should be delegated to an entity equipped with the necessary authority and resources to proficiently manage the SOE portfolio.

Performance management and monitoring: Effective performance management and monitoring are essential for informed and responsible ownership. The state must monitor the performance of SOEs and hold their management teams and boards accountable, establishing monitoring systems based on well-defined mandates, strategies, and performance objectives.

Structure and functioning of the board of directors: The structure and functioning of boards of directors are pivotal in enterprises, providing strategic guidance to management and overseeing critical areas such as strategic planning, risk management, and executive remuneration. Effective boards have clearly defined responsibilities, diverse and merit-based memberships, specialized committees, appropriate remuneration frameworks, and mechanisms for regular effectiveness evaluations.

Financial accountability and transparency: Financial accountability, controls, and transparency are indispensable for holding SOEs accountable for their performance. This entails transparent and accurate reporting on financial performance, robust internal controls, and independent external audits. Additionally, the disclosure of portfolio-level information enhances accountability by informing policy makers and stakeholders about SOEs' performance and ensuring effective fulfillment of the government's ownership role.

Procurement by SOEs: Procurement by SOEs raises important questions about adherence to government procurement rules and the flexibility of procurement requirements to reflect their commercial nature. Regardless of the system in place, it is crucial to ensure that SOEs adhere to universally accepted principles of procurement, including transparency, efficiency, and economy.

3.4.1 Legal and Regulatory Framework

Various legal and regulatory instruments, sometimes conflicting, govern SOEs in Zambia

SOEs in Zambia are regulated by several legal and regulatory instruments, which complicate SOE governance. The Companies Act No. 10 of 2017 serves as the primary regulatory tool for the incorporation, classification, and administration of all companies in Zambia, private or public. Additional legal instruments address specific matters concerning SOEs, including the Public Finance Management Act No. 1 of 2018. This act focuses on the legal oversight of statutory corporations and SOEs regarding the management and control of public finances, including debt acquisition. Furthermore, the Public Debt Management Act No. 15 of 2022 imposes restrictions on SOEs, preventing them from obtaining loans without authorization from the finance minister.

The Securities Act No. 14 of 2016 and its Amendment Act No. 21 of 2022 govern the involvement of SOEs in capital markets. Given that some SOEs' shares are on the list (or board) of officially traded stock on the Lusaka Securities Exchange (LuSE), this legislation automatically becomes an integral part of the legal framework governing SOEs. Additionally, the Minister of Finance (Incorporation) Act Cap 349 of the Laws of Zambia grants legal authority to the finance minister, who acts as the shareholding minister, to hold shares in SOEs on behalf of the state. Consequently, the finance minister exclusively holds the shares in SOEs on behalf of the government, and this ownership will only be relinquished upon the appointment of another individual as minister.

However, the absence of a comprehensive SOE law or regulation in Zambia is further complicated by some SOEs having been established as statutory corporations through specific Acts of Parliament. For instance, the Bank of Zambia Act No. 5 of 2022 outlines the governance and functions of the Central Bank as an SOE, including the requirement to transfer dividends to the government as the sole owner. Similarly, the Civil Aviation Act No. 5 of 2016 regulates the operations and administration of Zambia Airports Corporation Limited, and establishes the supervision, regulation, and orderly development of civil aviation in Zambia. The lack of a unified legal framework for SOEs in Zambia presents challenges in comparing and benchmarking companies due to varying standards and legal obligations, as well as diverse mechanisms for monitoring performance.

Zambian SOEs' compliance with accounting and internal audit regulations is inadequate

Most of the SOEs fall short of international standards for corporate governance and practices as embodied by OECD guidelines. According to these guidelines, SOEs are required to adhere to good corporate governance practices, including management oversight and other governance measures.[79] The Companies Act No. 10 of 2017 and the Corporate Insolvency Act No. 9 of 2017 outline specific guidelines related to liquidation, bankruptcy declaration, and sound financial reporting. However, the extent to which these guidelines are followed by most SOEs in Zambia is uncertain due to a 'self-reporting system' between the government and certain SOEs, particularly for dividend declaration. Despite recording annual financial profits, some SOEs, such as the Mulungushi International Conference Centre, have failed to declare dividends to the government.

SOEs in Zambia are legally subject to accounting and internal audit requirements, but compliance remains low. The Constitution of Zambia, Public Finance Management Act, and Public Audit Act establish a framework to ensure effective oversight and audit of public funds and performance management for all public bodies, including SOEs. Similarly, the Auditor General oversees financial standards for SOEs to ensure accountability and transparency in public administration. However, many entities fail to submit the required financial statements, leading to audit queries and discrepancies. Despite the creation of the IDC, the submission of audited financial reports by SOEs has only marginally improved. For instance, the IDC did not receive audited financial statements for 2018-2022, and some SOEs have not submitted statements for 2020-2022.[80] Furthermore, most of the time recommendations from the Auditor General's reports are ignored by law enforcement agencies.

[79] OECD (2015).
[80] GRZ (2022b).

3.4.2 Managing the SOE Portfolio

Despite the establishment of the IDC, SOEs still face multiple reporting systems, causing redundancy and confusion in communication channels among the various authorities

The IDC, established in 2014, operates as a wholly owned entity of the MoFNP. Functioning as a holding company, it holds shares in 41 entities spanning various key economic sectors. The IDC was established to create and maximize long-term shareholder value as an active investor and shareholder of successful state-owned enterprises, as well as to undertake industrialization and rural development activities through the creation of new industries. The Chairperson of the Board of IDC has traditionally been the President of the Republic, responsible for elections to the board, which includes three cabinet ministers, two civil servants, seven members from the private sector, and the Group's Chief Executive Officer.

SOEs in Zambia are subject to multiple reporting systems, despite the establishment of the IDC which was meant to address the dual reporting. SOEs in Zambia are accountable both to line ministries—for administrative matters, including management decisions and operational issues—and the MoFNP for overall oversight, funding and approval for debt contraction. As part of its mandate, the IDC was established to address operational issues, streamline reporting lines, and enhance financial performance. The IDC's role is to monitor and evaluate key performance targets and objectives in majority shareholding SOEs, while line ministries continue to handle general management and oversight functions. However, despite establishing the IDC, the dual reporting model persists, with SOEs still reporting to line ministries, the MoFNP, and in some cases, the IDC. The dual reporting arises because a clear, formal document that stipulates the role of MoFNP, line ministries, and the IDC with regard to SOE governance does not exist. This has created a conflict in the responsibility of different principals and added an additional layer of oversight to the reporting model. To address these challenges, reforms are necessary to enhance the reporting structure and improve SOE monitoring and evaluation processes.

Line ministries in Zambia have regulatory powers over SOEs, resulting in overlapping mandates and unclear communication channels among different principals. SOEs in Zambia face the challenge of unclear roles and communication channels between different principals regarding specific requirements. This is because line ministries, in addition to their administrative roles, have various other responsibilities such as policy formulation and implementation. Furthermore, they exercise important oversight functions, such as appointing chief executive officers (CEOs) and boards of directors. This situation restricts the operational autonomy of SOEs and their adherence to good corporate governance standards. To tackle this issue, reforms should prioritize clarifying ownership and oversight functions, as well as streamlining accountability systems for SOEs. Granting more operational autonomy to SOEs in relation to line ministries could help avoid further confusion caused by the current dual reporting structure.

3.4.3 Performance Monitoring

Despite the 2012 SOE policy framework, monitoring of SOEs performance is still inadequate

In 2012 the government developed the Zambia State-Owned Enterprise Policy as a policy framework for supervising and monitoring SOEs. The main aims of the policy were to establish an effective monitoring and supervisory system for SOEs and promote the adoption of good corporate practices.[81] However, the specific objectives and strategies outlined in the SOE policy have not yet been implemented. The Public Finance Management Act (2018) also assigns the Minister in Charge of Finance the responsibility of developing a framework for monitoring and supervising performance, as well as a set of government governance guidelines.[82] At the time of this assessment, the MoFNP was in the process of creating a new SOE policy that would provide a structured approach to monitoring the performance of SOEs.

Currently, there is no guidance on which institutions are responsible for monitoring SOEs' compliance and performance. The 2012 SOE policy mandated the establishment of a State Ownership Council led by the Minister of Finance, which was to create a framework for overseeing and monitoring SOEs, while a State Ownership Office (department) would handle the daily tasks related to supervising and monitoring SOEs. To date, however, neither the council nor the office has been established, leaving the responsibility of monitoring SOE compliance and performance to the companies themselves. One such example is the Zambia Airports Corporation Limited (ZACL), which has devised a Balanced Scorecard as a means of measuring performance. At the start of each year, targets are established in accordance with the company's Five-Year Strategic Plan, encompassing four categories: (1) financial performance; (2) customer experience; (3) organizational capacity; and (4) operational excellence.[83]

3.4.4 Board of Directors and Executive Management

SOEs in Zambia often lack a clear separation of ownership, and the responsibility to oversee them often falls on MoFNP, sector ministries, and other government bodies. According to the 2015 OECD guidelines, the ownership policy should be a concise, high-level policy document with information on how ownership rights are exercised within the state administration, including the ownership entity's mandate and main functions and the roles and responsibilities of all government entities that exercise state ownership. In Zambia, the lack of specific SOE legislation results in various pieces of legislation guiding SOE management. For example, the Public Finance Management Act (2018) vests the Finance Minister with the authority to delegate the management and control of government interests in statutory corporations and SOEs to the Secretary to the Treasury, or to establish an appropriate executive authority.

[81] MoFNP (2012).
[82] GRZ (2018).
[83] Consultations with ZACL.

Zambia's SOEs lack competitive nomination processes for boards and sub-committees, as well as standardized legislation for board member remuneration, resulting in inconsistent pay levels

The process of nominating and appointing boards and sub-committees within Zambia's SOEs lacks standardization. The Companies Act No. 10 of 2017 allows companies, including SOEs, to appoint directors, and emphasizes the minimum number of directors required for the company's board. Furthermore, the same act permits the board of directors to establish committees and appoint any number of directors as committee members. This highlights the absence of standardized official procedures for nominating and appointing boards and sub-committees, resulting in different processes across SOEs. Currently, the Minister in Charge of Finance appoints some seats on SOE boards, while other seats on the board are nominated by the SOEs to industry-specific associations. The National Corporate Governance Bill, which is being drafted by the Institute of Directors of Zambia (IoDZ), aims to establish standards and procedures for board nominations and appointments, as well as capacity building.

Processes for appointing board directors in Zambia are not competitive, lacking criteria based on skills, experience, merits, independence, and transparent requirements for appointments and removals. Board directors are frequently selected based on political connections rather than through a neutral selection process. Directors also appoint the CEO, which heightens the possibility of political meddling in SOE management. A prime example of this is the fact that the President of the Republic is legally mandated to chair the IDC Board, leading to apprehensions regarding political interference in decision making and appointments of the board of directors and senior management. Moreover, as the IDC comes under the Ministry in Charge of Finance, the board chair is required to report to this minister, who functionally reports to the President. This circular arrangement exacerbates the potential for conflicts of interest. This lack of independence in the selection and oversight of board directors can have serious consequences for the effective management of SOEs. Political appointees may prioritize political interests over the long-term sustainability and profitability of the enterprises they oversee, leading to inefficiency, corruption, and mismanagement.

There is no standardized legislation for the remuneration of SOE board members, leading to inconsistent pay levels. Commercially oriented SOEs tend to pay higher fees than those focused on public policy. Remuneration is determined by each SOE based on their policies and financial capacity, with guidance from the 2016 King IV report on corporate governance by the Institute of Directors: Southern Africa,[84] as adopted by the Institute of Directors of Zambia (IoDZ). SOEs sometimes conduct remuneration surveys to benchmark their pay, which can include different types of compensation like sitting allowances and retainer fees. The lack of performance-based contracts and uniform remuneration guidelines makes it difficult to attract competent board members, which in turn affects SOE performance. Additionally, financial limitations restrict the ability of SOEs to provide necessary training for board members and executive management through programs offered by the IoDZ, further impacting their strategic oversight and performance.

[84] Institute of Directors: Southern Africa (2016).

3.4.5 Transparency and Disclosure

Transparency and disclosure play a crucial role in holding SOEs accountable. In Zambia, where SOEs play a significant role in the economy, it is crucial to have mechanisms in place to ensure transparency and disclosure. These mechanisms include publishing annual reports, financial statements, and performance indicators that provide a clear picture of how these entities are being managed and operated. At the same time, they should provide financial and non-financial information to relevant stakeholders.

SOEs in Zambia often struggle to produce their annual financial and non-financial reports in a timely manner; however, the audit functions and debt issuances are regulated effectively

The production of annual financial and non-financial reports by SOEs in Zambia is rarely timely. Less than half of all SOEs managed to submit their annual audited financial reports on time to the Ministry of Finance, despite timely submission being mandated by the Companies Act (2017) and the Public Finance Management Act (2018). Eight SOEs have not yet produced audited financial statements for 2020-2022. Furthermore, the current legal framework does not compel SOEs to publicly disclose their financial and non-financial reports. On the plus side, all financial reports submitted by SOEs adhere to the recommended International Financial Reporting Standards (IFRS).

The internal and external audit functions for SOEs are carried out by audit units and the Auditor General's office, respectively. The internal audit units ensure that the SOEs comply with internal policies, regulations, and governance standards to optimize internal controls and risk management. They report directly to the boards of SOEs through audit committees, and administratively to CEOs. SOEs are also subject to external audits conducted by the Office of the Auditor General (AG). In cases where the AG's office faces capacity constraints, an SOE can engage an independent auditor registered and accredited by the Zambia Institute of Chartered Accountants (ZICA). The Public Audit Act No. 29 of 2016 plays a crucial role in anchoring the public audit function and enhancing the transparency and accountability of SOEs.

Debt issuances by SOEs are now well regulated. The Public Debt Management Act No. 15 of 2022 serves as a guiding framework for SOEs to obtain loans. Its primary objective is to ensure transparency throughout the loan contraction process. The Secretary to the Treasury plays a crucial role in this process by approving all debt issued by SOEs. In this decision, the Treasury carefully evaluates SOEs' financial capacity to service the debt. To maintain accountability, SOEs are obliged to provide quarterly updates on their debt position to the Minister of Finance, who must then relay this information to the National Assembly. The act also mandates the Minister of Finance to prepare an annual borrowing plan three months before the start of the financial year. Within three months of the end of each financial year, the minister must present an annual report on public debt, guarantees, and grants execution.

3.4.6 Public Procurement and SOEs

The Zambia Public Procurement Authority (ZPPA) plays a crucial role in managing public procurement by setting standards, ensuring compliance, monitoring performance, and fostering professional growth. SOEs, even those with minority government ownership, must comply with public procurement regulations. However, the need for SOEs to operate efficiently and profitably necessitates a more flexible procurement system. The current 'one-size-fits-all' regulatory approach causes delays and inefficiencies, undermining profitability. For example, the Public Procurement Act No. 8 of 2020 mandates benchmarking goods and services against a quarterly market price index, but the protracted procurement processes can lead to discrepancies between contract prices and current market values, as market prices may fluctuate during the bidding period. To improve SOEs' competitiveness and economic impact, it is essential to reform the public procurement legal framework by adding specific regulations designed for SOEs. Additionally, to tackle corruption in public procurement, there should be a concerted effort to establish a fast-track court and a Joint Investigations Team consisting of various law enforcement bodies. Despite the introduction of electronic contract management and online tendering to curb corruption, persistent challenges highlight the need for ZPPA and SOEs to strengthen their ability to detect and address corruption effectively.

Biased practices affect SOE procurement in Zambia, but recent legislative changes have improved the public procurement framework

The procurement process for SOEs in Zambia is reportedly affected by biased practices. Anecdotal evidence suggests that companies within the IDC network are encouraged to support each other, creating an environment that favors SOEs over external vendors. This advantage comes from preferential payment terms that improve SOEs' cash flow, as they are not subject to interest charges on late payments, unlike their external counterparts. This internal preferential treatment leads to a skewed market, where non-IDC companies may find it difficult to compete fairly. Additionally, the reliance on a limited pool of suppliers can constrain the variety of products and services available to SOEs, which may result in lower quality and missed opportunities for cost savings and efficiency gains. The lack of competition could lead to higher prices and diminished quality, negatively affecting SOEs' performance and competitiveness.

The launch of the Electronic-Government Procurement (e-GP) system in 2016 by ZPPA represents a significant step towards modernizing and improving procurement processes in Zambia. The e-GP system was designed to enhance transparency, efficiency, and accountability in the procurement process by automating and digitizing various stages of procurement, such as tendering, bidding, and contract management. However, the resistance from some SOEs to adopting the system has hindered its full implementation and utilization.

Laws enacted since 2020 have significantly improved the public procurement framework. These include the introduction of the Public Procurement Act No. 8 of 2020, and the Public Procurement Regulations, 2022. Currently, there is a push to pass a new amendment to the 2020 Public Procurement Act, which is intended to shorten the procurement timeline, ease restrictions on subcontracting, and increase subcontracting opportunities for local firms. Despite these laudable reforms, there is a pressing need for bespoke legislation tailored to the specific operational needs and sectoral challenges of SOEs, which would help them navigate their unique business landscapes more efficiently and effectively.

3.5 POLICY RECOMMENDATIONS

Strengthening the SOE regulatory framework

Propose and enact a single, unified, comprehensive law applying to all SOEs, based on a reassessment of the several legal and regulatory instruments currently governing SOE operations. The absence of a unified law or regulation specifically tailored to SOEs is further complicated by the fact that certain SOEs are established under specific acts of parliament. This fragmentation leads to different SOEs being subjected to different legal standards, resulting in inconsistencies in governance and accountability. Therefore, the government should develop an all-encompassing legal framework (to be known as the SOE Act), harmonizing existing legal conflicts and addressing ambiguities in ownership and oversight functions among principals. This process will entail reviewing, repealing, and replacing laws such as the Companies Act No. of 2017, the Corporate (Insolvency) Act No. 9 of 2017, and the Minister of Finance (Incorporation) Act Cap 349 of the laws of Zambia, with a unified SOE Act. These measures aim to provide clarity on ownership and oversight responsibilities for all stakeholders engaged in the sector.

Realign the institutional framework for SOEs to eliminate dual reporting relationships by legislating for a single independent body responsible for overseeing SOEs' operations. In the short term, the government could: (1) outline the reporting obligations for SOEs on their financial situation within a limited period, along with the repercussions for failure to comply; (2) clarify the duties and functions of supervisory entities (IDM and IDC); (3) tighten requirements related to SOEs' debt, on-lending, guaranteed debt issuance, and monitoring; and (4) implement clear criteria for board appointments and senior management roles. In the medium term, the government could restructure the IDM into a single independent body responsible for overseeing SOEs' operations. This body should enforce the code of conduct, undertake performance monitoring and evaluation, and oversee auditing processes autonomously and free from political influence. Additionally, the framework must be revised to remove conflicting reporting structures, enhance transparency, and improve governance practices within SOEs. Transparency and accountability mechanisms such as regular reporting, public financial disclosure, and a whistleblower protection program should be established. Guidelines for appointing board members and senior management based on merit rather than political connections should also be included. Performance-based incentives and penalties for employees should be introduced to enhance efficiency and effectiveness, fostering a culture of accountability and responsibility aligned with organizational goals.

Complete the draft of the National Corporate Governance guidelines, critical for establishing a consistent framework for governance practices in Zambia. The IoDZ has been drafting National Corporate Governance Guidelines since 2022. Implementing this legislation will see a unified set of standards and procedures established for selecting and appointing board members and sub-committees, guaranteeing that capable and qualified individuals are chosen to oversee SOEs. This should also include comprehensive director development, training, and induction programs, combined with board monitoring and evaluation.

Improving SOE ownership policy

Assess the rationale for state ownership and revisit it periodically, weighing up the trade-offs involved in public financial resource constraints and potential negative market impacts of SOE involvement. When formulating the investment strategy for SOEs, it is imperative for the government to thoroughly assess and publicly disclose the objectives that support state ownership. Given the competing demands on limited public funds, the government must carefully analyze the pros and cons of retaining ownership stakes in companies, especially in SOEs that don't fulfill a public service mandate or strategic objective. A crucial consideration is whether SOEs address market failures or if the private sector could effectively deliver the same goods and services. SOEs that don't meet the criteria for continued state ownership may undergo privatization, restructuring, or gradual winding down, as deemed appropriate.

Develop a dividend policy for SOEs, which should be inclusive and transparent. The development of a structured process for determining dividends will help the government to plan and budget. The formulation of a dividend policy should involve critical stakeholders like MoFNP for effective planning and accountability.

Remove the President of the Republic from the IDC Board. This step would mitigate potential conflicts of interest and political interference, allowing the board to operate with a singular focus on strategic decision making and prudent investment practices. By depoliticizing the board, the IDC can better align its activities with economic objectives, promote transparency, and enhance investor confidence. Furthermore, this move would underscore the commitment to professional governance and strengthen the institution's credibility both domestically and internationally.

Addressing fiscal risks and expenses related to SOEs

Reduce fiscal risks and costs through establishing fiscal discipline rules and a robust fiscal risk monitoring system. SOEs should be required to adhere to specific financial ratios to limit their level of indebtedness, including short-term debt. One avenue is to set a cap on permitted leverage ratios. For example, a gearing ratio of 50 percent could be established as the maximum allowable limit. Moreover, the government should continue improving SOE fiscal risk monitoring and reporting functions within the MoFNP. Currently, these functions are not effective within the MoFNP, leading to high exposure to fiscal risks related to SOEs. Furthermore, it is crucial to establish a transparent due process for decision making in SOEs, especially when there is a significant fiscal impact. All interested parties should be involved in the decision-making process. For instance, a defined process should be in place to guide SOEs' investment decisions. These decisions must be subject to appropriate approvals, oversight, and transparency. Finally, the impact and longer-term sustainability of investment projects should be systematically evaluated to mitigate fiscal risk exposure.

Implement additional measures to improve SOEs' transparency and accountability. Strengthening reporting standards for SOEs would be crucial for public accountability. Legal provisions should require the dissemination of aggregated SOE reports to promote transparency. The government should assess its direct shareholdings in other entities held by SOEs to gather financial data for informed decision making. Full adoption of the e-Government Procurement system by all SOEs by end-2024 is essential to enhance transparency.

Specific recommendations for ZESCO

Collect ZESCO's billed revenue, especially from the mining sector. Conduct a thorough analysis to identify the root causes of revenue leakages and implement targeted strategies to improve revenue collection, especially from the mining sector, which is responsible for the largest share of receivables. Enhance monitoring and enforcement mechanisms.

Implement measures to incentivize ZESCO to adopt cost-effective reform. This is crucial for the company's path towards enhanced profitability, liquidity, and creditworthiness. These reforms would play a vital role in positioning ZESCO as an appealing partner for private sector investment in the power industry, as highlighted in a comprehensive cost-of-service study conducted in 2019. Implement cost-reflective tariffs to avoid ZESCO importing power at a high rate and selling it to end-user consumers at a lower rate. However, it is of utmost importance for the government to prioritize the well-being of the poor population by maintaining lifeline tariffs and providing subsidies for connection fees to low-income households.

Explore additional measures, such as increasing export revenues and converting short-term liabilities into long-term liabilities. These measures will help to further clear ZESCO's balance-of-trade payables and potentially reduce the company's total debt-to-equity ratio. These actions are essential to prepare Zambia's power sector for increased private sector participation and to ensure the long-term sustainability of the sector.

Table 16: Matrix of recommendations

Policy Problem	Short-Term Actions	Medium-Term Actions
Existence of several legal and conflicting regulatory instruments governing SOE operations	Propose a single, unified, comprehensive law applying to all SOEs	Implement and ensure the enforcement of the unified regulatory framework for SOEs
Dual reporting of SOEs to the supervision entities	Realign the institutional framework by adopting a single independent body responsible for overseeing SOEs' operations	Back the independent supervision entity with an act of parliament to ensure autonomy.
Rising fiscal burdens associated with SOEs	Establish fiscal discipline rules and a robust fiscal risk monitoring system for SOEs	Improve transparency and accountability of SOEs
Lack of uniform standards and procedures for board and sub-committee nominations and appointments	Complete the drafting of the National Corporate Governance Bill to standardize governance practices	Observe application of code of conduct among SOEs
Unclear rationale for state ownership for some SOEs	Formulate an investment strategy for SOEs that assesses and publicly discloses the objectives of state ownership	Assess whether SOEs address market failures or if the private sector can deliver the same goods and services
Lack of a well-structured process for determining dividends	Develop a dividend policy	Back up the dividend policy with legislation
Ensure cost-reflective tariffs, which is the main reason for ZESCO's chronic weak performance	Ensure ZESCO adjusts tariffs according to the ERB-approved Tariff Adjustment and the Multi-Year Tariff Framework	Enhance the profitability, liquidity, and creditworthiness of ZESCO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ANNEXES

ANNEX 1A. SUMMARY OF ZAMBIA'S TAX SYSTEM

Table 17: Summary of Zambia's tax system (2022)

Instrument	Coverage/base	Rates	Comments
Corporate income tax	Gains or profits from any business	30% standard with exceptions: 15% for manufacturing of fertilizers 10% for farming and agro-processing 35% for electronic communications business	4% for businesses with a turnover of ZMW 800,000 or less annually
Personal income tax	Operated under the pay-as-you-earn (PAYE) regime. Deduction of tax from employees' emoluments in proportion to what they earn	The four thresholds are amounts per month in ZWM: 0% for 0-5,100 20% for 5,101-7,100 30% for 7,101-9,200 37% for 9,200 and above	The 2024 tax=free threshold saw an increase from the previous K4,800. The top rate is a slight reduction from the previous 37.5%
Value added tax	Consumption-based tax levied in the supply chain at each point where value is added to a good or service.	16% for standard rate supplies	Registered suppliers do not pay VAT
Excise duty	Tobacco and manufactured tobacco substitutes such as cigarettes; clear beer; opaque beer; hydrocarbon oils; spirits and wines; electrical energy; airtime; cosmetics; plastic bags	Different rates based on weight, strength or quantity of the goods or products, or their value. For example, 30% for plastic bags and 17.5% for telephone airtime in 2023	
Customs taxes	Imported goods	5%	

Instrument	Coverage/base	Rates	Comments
Mineral royalty	Payment received as consideration for the extraction of minerals. This applies to: All taxpayers with mining rights from the ministry of Mines and Mineral Development. Any person without a mining right but possessing minerals on which the supplier of the minerals has not paid mineral royalty. All persons carrying out the quarrying of industrial minerals; this includes the quarrying of gravel, clay, and sand. All persons who mine minerals as inputs or raw materials in their manufacturing process.	Base metals (other than copper): 5% on norm value Energy and industrial minerals: 5% on norm value Gemstones: 6% on gross value Precious metals: 6% on norm value For copper, the following five-tiered regime based on norm value applies: Less than USD 4,500: 5.5% USD 4,500 but less than USD 6,000: 6.5% USD 6,000 but less than USD 7,500: 7.5% USD 7,500 but less than USD 9,000: 8.5% USD 9,000 and above: 10%	Mineral royalty payable or paid is deductible when computing CIT when arriving at the gains and profits.

Source: ZRA

The Zambia Revenue Authority (ZRA) is responsible for administering and collecting direct, indirect, and customs taxes on behalf of GRZ. ZRA was established in 1994 as a corporate body under the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia, enacted in 1993. While the Minister of Finance supervises it, a governing board provides strategic direction, reviews, and approves policies, and monitors its functions. The Commissioner General (appointed by the President) manages the day-to-day administration and operations, assisted by commissioners overseeing the four divisions: (1) customs; (2) direct taxes; (3) indirect taxes; and (4) finance. According to the IMF's 2022 Tax Administration Diagnostic Assessment Tool (TADAT), ZRA had 2,066 staff during 2020 and an estimated total operating cost of ZMW 1.3 billion (USD 52.7 million), or approximately 2.2 percent of the total tax revenue collected.[86] Many SSA countries follow a similar tax administration model.

[86] International Monetary Fund, 2022.

ANNEX 2A. PIM LEGAL AND REGULATORY FRAMEWORK

The PIM legal and regulatory (L&R) framework, which is structured into three levels (Acts, Guidelines and Procedural manuals), has been updated over recent years and is the disciplinary engine for guiding and communicating public investment rules and assigning roles and responsibilities. Box 5 provides the main Acts that govern PIM in Zambia. The Acts provide for the legal framework for PIM as well as the PFM cycle of planning, budgeting, accounting, reporting, and auditing/oversight. The laws that apply at the central level also apply at the local level, however, there are additional legal elements that apply to local authorities.

BOX 5: Public Investment Legal Frameworks

Constitution of Zambia Amendment Act No. 2 of 2016 Article 184(2)(b) requires that the Ministries, Provinces, and other Spending Agencies (MPSA) Controlling Officer advises the Minister concerning public investment projects. Article 250(1)(c) requires the Auditor-General to conduct financial and value for money audits, including forensic audits and any other type of audit, in respect of a project that involves the use of public funds. Article 152 (1)(b) assigns a local authority to oversee programs and projects in the district.

Public Procurement Act No. 8 of 2020: This act provides the legal framework for public procurement in Zambia. It sets out the procedures, specifications, and contract packaging for procurement processes, including those related to sustainability and specific social objectives of projects. It also requires the approval of the Treasury and the legal advice of the Attorney-General for any amendment or variation to a contract. It includes provisions for the use of e-GP, variation does not exceed 25% of the original contract and having the design in place before procurement starts.

National Planning and Budgeting Act, No. 1 of 2020: This act establishes the framework for national development planning and budgeting in Zambia. It requires ministries, provinces, and agencies to review and report on the progress of projects and programs specified in the medium-term budget plan. It also mandates the appraisal of major projects and programs before inclusion in the national development plan.

Public Finance Management Act (No. 1 of 2018): This act governs the financial management of public funds in Zambia. It includes provisions for the formulation and coordination of public investment policy. It also requires the maintenance of compatible and efficient financial management information systems.

Local Government Act No. 2 of 2019: This act provides the legal framework for local government administration in Zambia. It includes provisions for formulation, monitoring, and evaluation of ward projects by Ward Development Committees.

Public Debt Management Act No. 15 of 2022: This act governs the management of public debt in Zambia. It includes provisions for raising loans to finance strategic national projects under a National Development Plan formulated in accordance with the National Planning and Budgeting Act. Provides for an Annual Borrowing Plan for specific projects.

Public Private Partnership Act No. 18 of 2023: This act provides the legal framework for public-private partnerships (PPPs) in Zambia. It establishes the PPP unit and the PPP council, which are responsible for promoting private sector participation in the financing, construction, maintenance, and operation of projects. It also includes provisions for the identification, evaluation, and management of PPP projects.

CDF Act No. 11 of 2018: This act governs the Constituency Development Fund (CDF) in Zambia. It establishes the CDF committee and the ward development committee, which are responsible for the identification, appraisal, and implementation of constituency projects. It also includes provisions for the approval, disbursement, and audit of CDF funds.

Project preparation is guided by the National Planning and Budgeting Act (PBA) No. 1 of 2020. The Act establishes three key foundations; it cascades the responsibilities of PIM at the budget phase to the leadership structure of the organizations; it regulates the timely submission of key PIM documents to fit into the medium-term expenditure framework (MTEF)well the annual budgeting process; and it leverages M&E functions to inform the subsequent rounds of planning and budgeting.

The link between PIM and the budget process starts with the controlling officer of MPAs, in consultation with the Cluster Advisory Group (CAG), to prepare and submit to the MoFNP an investment plan, every five years (article 25(3), PBA). A detailed budget policy paper that included proposed new projects which have been appraised and approved, is required to be submitted annually[87] (article 32(1), PBA).

All MPA submissions are processed and consolidated in order to prepare a national budget policy statement for the next year which includes a summary of the projects for which appropriations are proposed. The MPAs are also required to submit to the MoFNP a budget framework paper which includes a description of the projects for which the estimates for the next three years will apply (article 39(1) PBA).[88] In addition, when preparing the annual and midterm review of the National Development Plan, MPAs should include an assessment of the impact of the projects implemented in the subsisting National Development Plan (article 30(2) PBA).

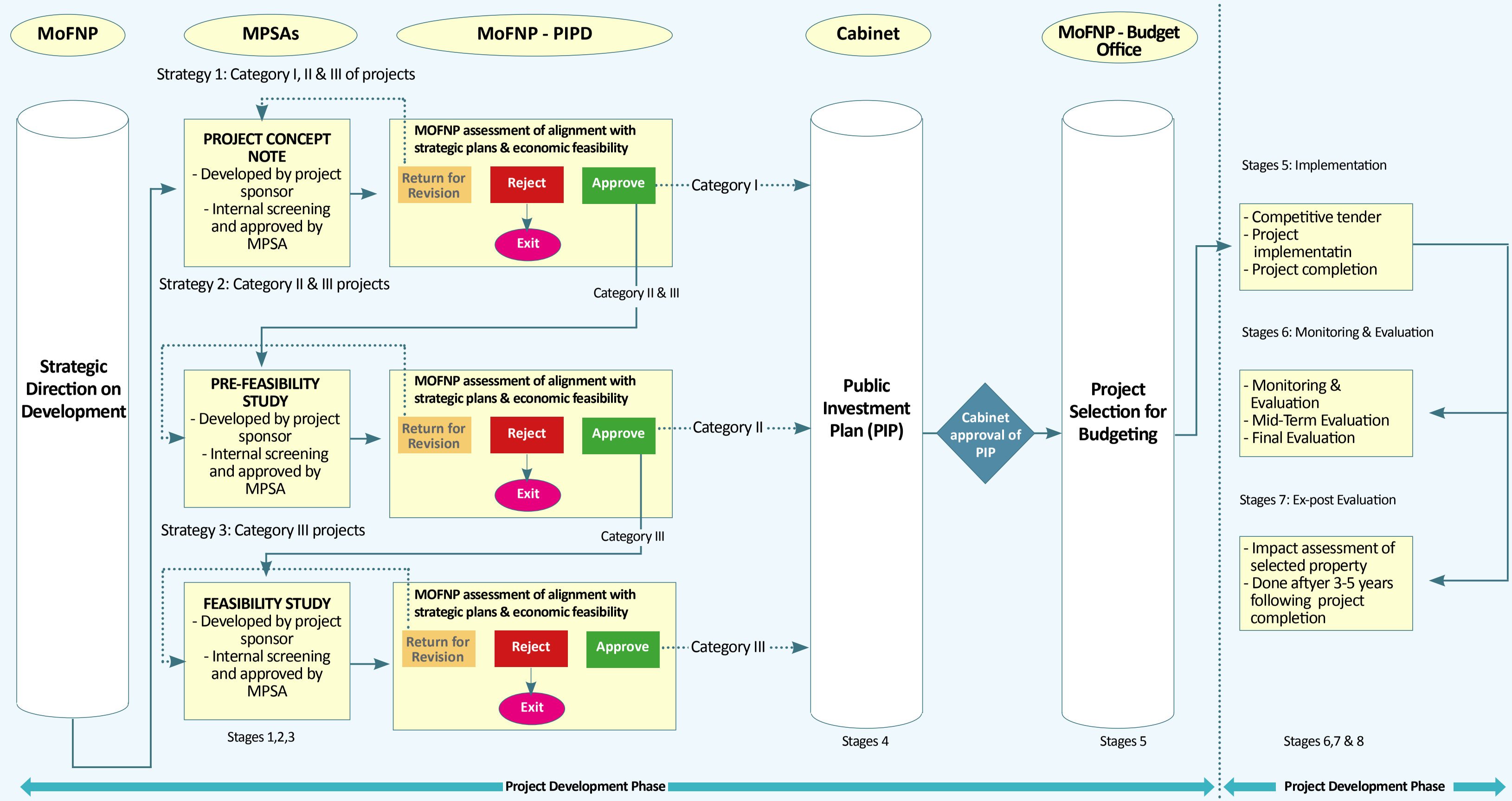
Sources of funds and the relevant accounting and reporting requirements are provided for in several Acts. The process of maximizing finance for PIM is established in the Public Debt Management Act No. 15 of 2022, which allows the Minister of Finance and National Planning to raise a loan to finance strategic national projects under a National Development Plan as well as the Public Private Partnership Act No. 18 of 2023, which provides for the promotion of private sector participation including funding, for public-private partnership projects.

[87] It is required to be submitted by the second Friday in April each year.
[88] It is required to be submitted by the second week of August each year.

Accounting and financial reporting for PIM are provided for under the Public Finance Management Act (No. 1 of 2018), and the PFM Act Regulations, SI 2022. The two pieces of legislation require that the Secretary to the Treasury ensures that the MPA controlling officer (a) maintains books of accounts and records in respect of a project and submits audited financial statements to the Treasury for inclusion in the financial report; and (b) records the assets of a completed project, including buildings, plant, vehicles, furniture, fittings, and equipment. Furthermore, the Act requires that the Secretary to Treasury ensure the maintenance of a compatible, effective, efficient, and transparent, financial management information systems in projects.

The GRZ also has a comprehensive public procurement legal and regulatory framework consisting of the Procurement Act of 2020 and supplemented by Public Procurement Regulations, 2022. It covers most aspects of a well-functioning public procurement system. The Act establishes the Zambia Public Procurement Authority (ZPPA), as an independent regulatory body with monitoring and oversight functions. The regulatory framework has ensured open tendering as the default method and provides the conditions for the less competitive methods. In addition, the functions, and responsibilities of contract management are clearly stated in the Regulations, and contractual disputes can be resolved through arbitration, which is more expedient and less costly for both parties. The Act and Regulations have referred to and outlined the basic elements of a complaints review mechanism.

Figure 56: PIM process



Source: PIM Gazette Note, MoFNP 2023

As for the PIM oversight function, it is spread over three legal instruments which guide the mandate of the three institutions responsible for oversight of PIM**.** Internal oversight is the mandate of MoFNP. The ministry is responsible for overseeing the allocation and management of public funds for investment projects, ensuring that resources are used efficiently and effectively to achieve the intended results. The ministry is also tasked with evaluating the impact of public investments, assessing their significance, and identifying any unintended effects. Additionally, the MoFNP is responsible for ensuring that public investments contribute to transformational change, addressing root causes of poverty and inequality, and promoting sustainable development. The Auditor General, in accordance with Article 212 of the Constitution (Amendment) Act No. 2 of 2016, the Public Audit Act No. 8 of 1980 and the Public Finance Management Act No. 1 of 2018 practices the role of the external auditor. Finally, the Parliament provides legislative scrutiny of the Annual Budgets including the Annual Borrowing Plans which includes projects to be funded by borrowed funds and reports of the Auditor General on the accounts of the Republic.

The recent PIM Guidelines of (2022) and the PIM Guidelines Gazette Notice (GN) of (2023) provide further details on the PIM regulatory framework. At the MPAs level, the strategic guidance and screening according to the PIM Guidelines is mapped to the Planning Department (PD) which is charged with the function of guiding the project-proposing department. Moreover, the Controlling Officer ensures that the projects co-financed by the Cooperating Partners (CPs) follow the processes and procedures established by the PIM Guidelines. The PIPD at MOFNP is the unit in charge of conducting the review on the appraisal provided by MPAs and leveraging the proposed projects to the approval stage of the Cabinet so projects are recognized as part of the national Public Investment Plan (PIP)[89]. See Diagram 2 for the PIM process.

The Guidelines and the GN recognize the criticality of standardizing a few cross-cutting issues. The Guidelines assign other strategic guidance and screening requirements for infrastructure investment projects to the Ministry of Infrastructure, Housing, and Urban Development, to the Zambia Environmental Management Agency for environmental impacts, to the Ministry of Local Government and Rural Development for settlements and spatial plans, to the Ministry of Justice for contract clearance, to the Ministry of Lands and Natural Resources for land issues and to the Zambia Public Procurement Authority for procurement regulations, guidelines, and market price indices.

Additionally, MoFNP produces many procedural and instruction directives (PIDs) that focus on the implementation level and are the complementary, third level of the L&R. This includes the medium-term Budget Call Circular (BCC) and the annual BCC, which provides instructions to MPAs on how to budget for projects.

[89] The GLs refer to the external review function by “appraisal”. This chapter follows the World Bank jargon and differentiates between the appraisal function which is internal to the proposing agency and the external review which is most likely, as in the Zambia case, conducted by the MoF.

ANNEX 2B. REVIEW OF DATA SOURCES FOR PUBLIC INVESTMENT BUDGET AND EXPENDITURE

This report's budget and financial data are based on information from the MoFNP. It covers both authorized budgets and actual expenditures for 2023-2022, focusing on total expenditure and the acquisition of non-financial assets. The data is sourced from three key “products" to determine the operations of central government based on economic classification, which categorizes flows and stocks into groups that have economic significance:

1. “Statement B” is derived from the annual audited financial statements of revenue and expenditure from the MoFNP.

2. “ZamStats” is the MS Excel version of the audited annual financial reports obtained from the Public Finance Unit of Zambia Statistics Agency.

3. The “Fiscal Table” is derived from the Budget Performance chapter in the Annual Economic Reports from the MoFNP.

The three data products are used for different purposes and are not always equal. We estimate the discrepancies among the three sources at the total expenditure and non-financial assets levels.

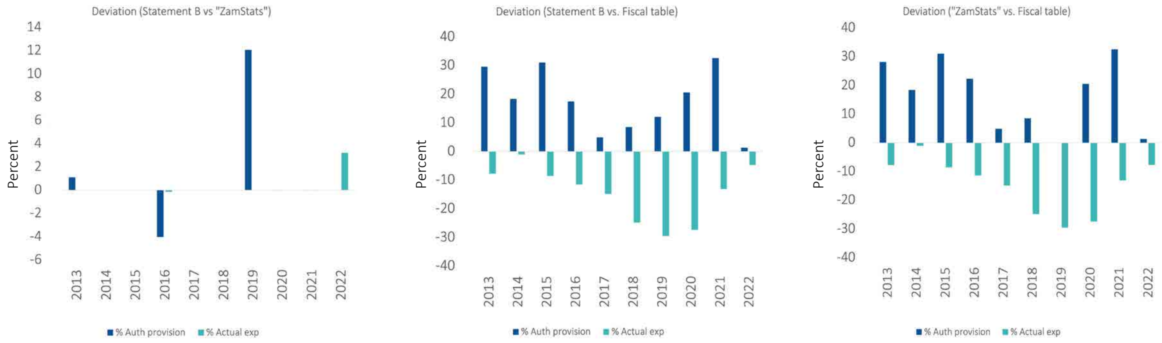
Comparing Total Authorized Provision and Actual Expenditure

In most years, the authorized provision and actual expenditure between Statement B and ZamStats are similar or identical, resulting in a 0 percent deviation. This indicates a high level of agreement between these two sources in terms of both planned and actual spending.

The deviation between Statement B and the Fiscal Table shows more significant discrepancies, especially in the actual expenditure, with percentages varying widely, reaching up to -29 percent in 2019. This suggests that the Fiscal Table reports higher actual expenditures than Statement B.

When comparing ZamStats against the Fiscal Table, the deviations in the actual expenditures are also quite notable, with the Fiscal Table reporting higher expenditures in most cases.

Figure 58: Comparison of data sources for budgeted and actual expenditure



Comparing Acquisition of Non-Financial Assets

The deviations between Statement B and ZamStats for the acquisition of non-financial assets are much more significant than in the total expenditure category. In particular, 2015 and 2016 show over 200 percent deviation in the authorized provision, with Statement B reporting much higher figures.

The deviations between Statement B and the Fiscal Table for these assets also show significant differences, particularly in the actual expenditure, with the Fiscal Table often reporting figures almost double those of Statement B.

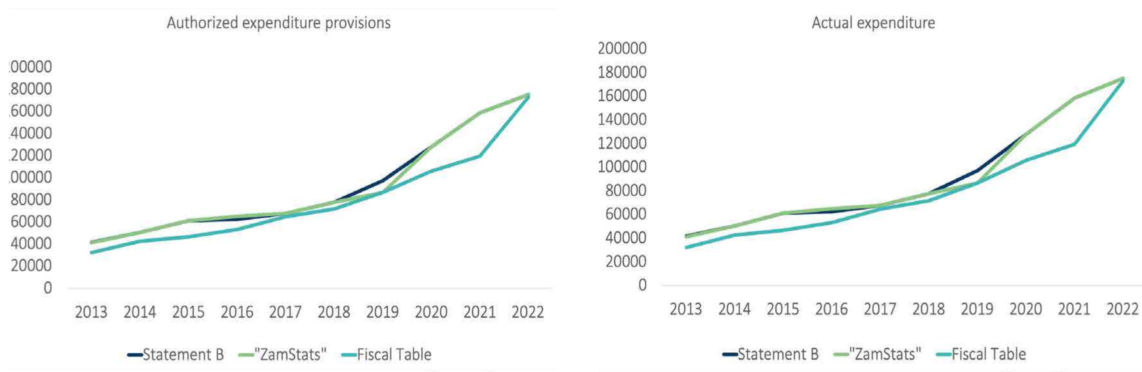
Similarly, the deviations between ZamStats and the Fiscal Table for this category are substantial, particularly in the actual expenditures, with the Fiscal Table reporting higher figures.

Figure 59: Comparison of data sources for budgeted and actual expenditure on acquisition of non-financial assets

Trend Analysis

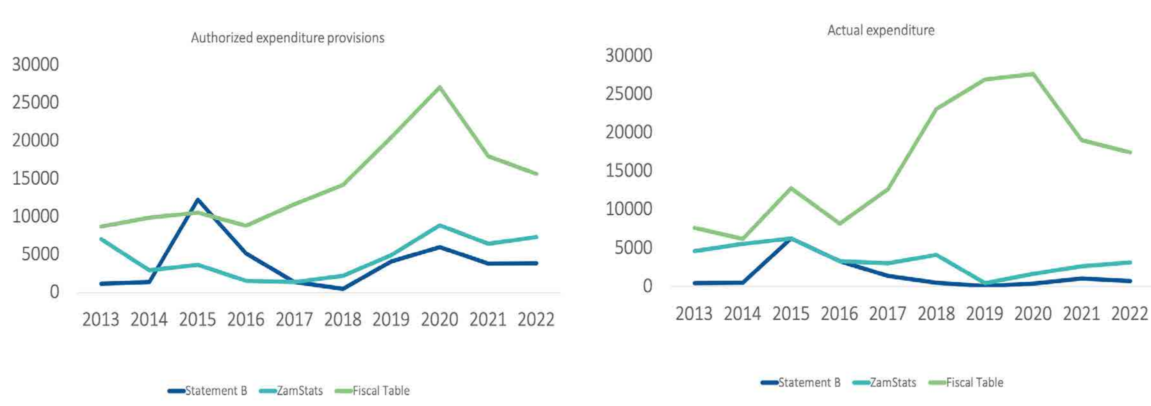
All three sources show a general upward trend, indicating increasing budget provisions and actual expenditure, with actual expenditure (Fiscal Table) consistently higher than the other two sources. The lines are closely aligned, suggesting that while there may be some discrepancies in the exact figures reported by each source, the overall trend of increasing budget provisions is consistent across the different reports. The convergence of trends from the three sources implies that despite possible methodological differences, the strategic direction in budgeting is coherent.

Figure 60: Trend analysis on budgeted and actual expenditure for various data sources



However, there is a discrepancy in the financial data reported by the three different sources, in the actual expenditures on non-financial assets (NFAs) during and after the period of 2018-2020. The Fiscal Table shows a significant rise and subsequent fall in such expenditures, which could be due to fiscal adjustments post-COVID-19 and governmental changes, including the decision to cut back on inefficient investment projects[90]. The Fiscal Table reflects a sharp increase in expenditures for road infrastructure in 2020, as noted in the 2020 Annual Economic Report, a detail that the other sources seem to have either missed or categorized differently.

Figure 61: Trend analysis on budgeted and actual expenditure on acquisition of non-financial assets for various data sources



[90] International Monetary Fund (2023). Zambia Selected Issues, IMF Country Report No. 23/257, July 2023

A meeting called between the World Bank and the MoFNP to understand the discrepancies established that there is data fragmentation. Statement B primarily uses Integrated Financial Management Information System (IFMIS) data. However, not all MPAs are presently covered in the IFMIS. Further, cooperating partners who offer direct budget and project support do not use the IFMIS system for financing and reporting transactions. This explains the under-reporting of foreign-financed expenditures. Cognizant of these limitations, the "Fiscal Table" was used to report figures at the aggregate level which likely includes consolidated data from various sources and accounts for foreign-financed expenditures and other financial data not captured in IFMIS. The "ZamStats" data was employed to analyses the composition of the expenditures and offers a breakdown of the spending by MPAs and by clusters.

Understanding the nuances and limitations of the three data sources is crucial for stakeholders who are interpreting the financial data, as it clarifies why there might be variations between different data reporting systems and the implications for financial analysis and decision-making. It also highlights the importance of improving data systems integration and reporting practices among all partners involved in the budgeting and financial management processes.

ANNEX 2C. LOCAL ESTABLISHED COMMITTEES TO SUPPORT CENTRAL PIM CYCLE

Table 18: Local established committees to support central PIM cycle

Type of Committee	Legal Framework	Line Ministry	Mandate	Role in project identification
Ward Development Committee	Local Government Act No.2 of 2019	MLGRD	• Create a link between communities and local authorities • Ensure residents of the community have an input decision made by the council • Development and maintain a register of all development projects by WDC's and institutions in the ward • Supervise the implementation of projects in the ward. • Harmonize all community related projects and activities needs and submit to the local authority's respective committees for action.[91]	Yes, significantly
Constituency Development Fund Committee	CDF Act No.11 of 2018	MLGRD	• Management of the constituent development fund • Deliberate on project proposals from the wards • Develop and submit a project list to the local authority for onward transmission to the minister • Conduct preliminary desk or field appraisal on the project where necessary • Conduct M&E on projects implemented using the CDF.[92]	Yes

[91] Guidelines on the establishment, management, and operation of ward development committee, MLGRD 2021
[92] CDF Guidelines, MLGRD 2022

Type of Committee	Legal Framework	Line Ministry	Mandate	Role in project identification
Neighborhood Health Committee	National Health Service Act of 1995 Note: This act was repealed in 2005 but the NHC continued to exist, and the Ministry continued to recognize and maintain their role[93]	MoH	• Be a link between community and health institutions by identifying needs and bring them to the attention of the health center • Disseminate information to communities on prevention and promotion, coordinate and supervise community health activities and institute participation of in health-related issues at household level.[94]	Yes [95]
Community Social Welfare Committee	Social Cash Transfer Guidelines	MCDSS	• Targeting: • undertake awareness campaigns • Support with registration of the social; cash transfer, informing their community about the event and help during the event itself • Payment: • to inform the recipients on the date and time to collect the social cash transfer fund • to monitor the payment of transfers to beneficiaries • Monitoring • To receive grievances from the community as well as solve problems • To refer problems to ACC that they are unable to handle/ solve • Monitor and ensure inclusion on the beneficiaries[96]	No

[93] Training center committees as a vehicle for social protection in health systems in East and southern Africa, (TARSC & EQUINET), 2014
[94] Training center committees as a vehicle for social protection in health systems in East and southern Africa, (TARSC & EQUINET), 2014
[95] This chapter Team tried to receive any verification protocol from MoFNP on the work of the Neighborhood Health committees to verify instructions given to them to support their work to collect the needs for health projects, or the minutes of their meetings to check how the instructions were applied. However, the relevant department in MoH (..) receives consolidated feedback and doesn't conduct any tracking on the process of engagement.
[96] Social Cash Transfer Guidelines, MCDSS 2018

Type of Committee	Legal Framework	Line Ministry	Mandate	Role in project identification
District Development Coordinating Committee	National Planning and Budgeting Act No.1 of 2020	All Ministries	• Facilitate the coordinating of the planning and implementation of development activities in the district • Formulation, implementation, monitoring and evaluation of district and ward plan budgets and harmonizing them with provincial and national budgets • Dissemination of the national, provincial, and district plans to the general public within the district[97]	No
Parents and Teachers Association	Education Act, 2011	MoE	• Ensure contact between parents and teachers and implement best practices pupils • Submit to the board of management proposals to raise funds and how to control funds for projects[98]	Yes, regarding the respective school
Community Based Natural Resource Management Boards Forum	Forest Act, 2015	Ministry of Green Economy	• Creating secure livelihoods for communities through utilization of natural resource that include forestry, fisheries, water, agriculture, land, and wildlife • Umbrella organization community-based organization, private sector, public sector, and donor organizations, NGOs with interest in supporting the forum. • Influence policy formation, facilitate implementation of programs and projects that develop sustainable and strategic partnerships between local communities, private and public sectors	Yes

[97] National Planning and Budgeting Act of 2020
[98] Zambia Education Act of 2011

Type of Committee	Legal Framework	Line Ministry	Mandate	Role in project identification
Community Resource Boards	Wildlife Act of 2015	Ministry of Tourism (DNPW)	• Promote and develop an integrated approach to the management of human and natural resources in community partnerships parks, game management areas or an open area falling jurisdiction	No
Community Forest Management Group	Forest Act, 2015 Environment & Lands Act	Ministry of Green Economy and Environment	• Protect conserve and manage the community forest or part therefor pursuant to the community agreement. • Formulate and implement forest management consistent with traditional forest under the local community in accordance with sustainable forest management.	No
Camp Agriculture Committee	Agriculture & Lands Act	Ministry of Agriculture	• Identification of individual FISP beneficiary farmers with verified biometrics. • Responsible or agricultural activities at a camp level	Yes

ANNEX 2D. PIM TASKS AND INFORMATION PRODUCED BY MOFNP ORGANIZATIONAL STRUCTURE

Table 19: PIM tasks and information produced by MOFNP organizational structure

Department	Role in PIM	Project information it has	Remarks
Budget Office (BO)	**Setting the PIM directions** by establishing the medium and annual attributions of the NDP into the medium-term budget plan (MTBP or MTEF) and the annual budgeting exercise. MoFNP produces the development medium and annual policy direction to initiate the MTEF and annual budget cycles. Based on the set development directions, MPAs provide their MTEF and the Budget Policy Note for BO/MoFNP review and consolidation to the submission to the Cabinet to endorse the development directions and trigger the annual budget cycle. **Approve**s funding and cash releases to capital projects	Capital transactions shown in the Yellow Book which doesn't attribute them to any specific project.	BO does not receive project proposals from MPAs through the budget documents shared by MPAs. BO does not conduct a verification exercise to make sure that all projects included under the annual budget proposal of MPAs are from the PIP. However, BO receives capital transaction posted from the budget proposal during the budget year, which is shown in the final annual budgeting exercise in the Yellow Book. Furthermore, BO receives unsolicited projects through the exemption channel of "National Interest and Emergency". BO doesn't review them. No information on the number and size of those projects is available.
BO, IREP, IDM, PPP	Availing Finance	Yellow Book Excel sheet DEMFES	Approval of grants, no project technical data Loans tracking- no objection on funding the project through loans Still not clear
PIPD	Screening of project proposals to align them to strategic priorities and eventually prepare the PIP containing approved projects	Project bank of ongoing and new projects	Has project bank that doesn't give the full picture of projects under the budget due to unsolicited projects and coordination challenges with BO.

Department	Role in PIM	Project information it has	Remarks
AGO	Treasury operations for timely payment and proper cash for project implementation	Capital transactions Final accounts	Budget execution module and cash management modules are working yet they can't establish relationship with projects. They handle capital transactions. Education and heath capital transactions are not under these modules. They use another platform (Navision) which is not interfaced with IFMIS as well as manual processes.
M&ED	Monitor and evaluate progress and report on challenges	MMS	Incomplete data
IREP/ EMD DC	Oversight	Fiduciary data Progress of implementation	-Just CPs-funded projects -DCD has a CPs project monitoring tool established with EU support in 2016. The tool could host project information by sector, cost, funding CP, and location with a module to track implementation. Yet, the tool is not active anymore after the EU support came to an end.
BO AGO PIPD	Disclosure	Yellow Book Final accounts PIP	Contains approved capital transactions with no link to projects Contains executed capital transactions with no link to specific projects Have the incomplete project Bank at the national level, doesn't report on unsolicited projects
PA	Leads the process of NDP	No specific project information	

ANNEX 2E. DETAILED PIM POLICY RECOMMENDATIONS

Table 20: Detailed PIM policy recommendations

Area	Recommended action	Timeline		Principal responsible agency
		Short (less than one year)	Medium (1-3 years)	
Better Data utilization	Activate the project module under IFMIS and position it as the hub repository of project information for MoFNP departments and MPAs	Review the current status, identify attributes of underutilization, produce a resolution plan, and assess potential interfacing/integration with other data platforms	Implement the plan and track implementation	MoFNP
		Do stock-taking of the codes of the ongoing projects, and put a plan for converting them into a unique identifier for each project		
		Foster IFMIS integration to have the project module integrated with the budget execution modules and the forthcoming budget planning module		
	Establish a strong discipline of the use of data platforms to generate evidence reports	Do stock-taking of the current data platforms for key MPAs with large investment portfolios and identify the attributes of underutilization.	Implement a plan of utilization of data platforms based on prioritized MPA and link this to the budgeting exercise	
		Strengthen the PIM and Budget preparation guidelines to indicate the rejection of off-system information management and off-system data reports		

	Improve the governance of financial data and establish an Information Center for MoFNP	Produce the plan to establish the Information Center and its positioning in the MoFNP	Establish the financial data quality control function and assign it to the Information Center	
		Do stocktaking of all the current financial data records and establish a data book of definitions and standards	Conduct systematic joint review and quality assurance on the presentation of financial data in public reports of ZamStat and BoZ.- and assign this function to the Information Center	
	Establish Information Centers in each MPSA	Review the organizational structure of large MPAs and produce the plan to establish the Information Center with proper staffing of statisticians and a strong link to ZamStat	Work with Civil Service Commission/s to modernize the MPAs org structure and staffing to have the Information Center active	PS MMD
Strengthen Project at entry	Establish the practice of assessing the baseline budget within the MTEF exercise	Incorporate the baseline exercise within the annual budget	Incorporate the baseline exercise within the MTEF	MoFNP
	Strengthen the practices of the challenge function	Set guidelines of the framework of practicing challenge function with a clear division of responsibilities among departments and establish a tracking tool with the dashboard on the status of projects within MoF	Track the implementation of the Framework of challenge function implementation	

	Establish the practice of having the PIP ready for submission to the Parliament timely with the budget proposal	Assess the capacity of the PIPD to expedite the process of project review	Enhance the capacity of the PIPD	
	Develop a PIM interactive identification and screening tool to enable the comparison, analysis, and prioritization of numerous projects	Develop the tool and the guiding parameters for comparisons	Apply the tool with an accessibility of MPAs for transparency of the process	
	Comprehensively develop the PIM guidelines to foster the role of the private sector	Establish the paraments to bring the private sector into the bankable projects and control public competition		
	Produce a PIM agile process to fit the case of emergencies and disasters	Draft the PIM agility mechanism	Conduct public consultation to strengthen with feedback and set into application	
Foster CoG functions	Conduct stocktaking of all data platforms and produce a plan for better utilization of PIM-based evidence	Establish a tracking mechanism of off-line report generating practices	Establish a mechanism to maintain the data platforms including budgeting requirements	PDU
	Establish a project coherence secretariate	Set a mechanism to track the coordination for project implementation with a dashboard for sharing the tracking results	Apply the mechanism	
	Leverage the MMS to the Cabinet level and allow public access and live interaction	Assess the capacity of MMS for public accessibility	Has a gradual implementation	

Better local PIM governance	Develop the PIM guidelines to support the localization of the PIM agenda with the local development agenda and considering the growing devolution agenda	Develop the local PIM procedural manual with clear attribution to national and local development priorities	Conduct capacity building and awareness of the manual to both local and central relevant institutions and track implementation	MLGRD
	Foster the PIM local authorizing environment	Conduct a local PIM institutional review to identify the completeness of PIM functions and institutional bottlenecks.	Set the plan of implementation and track results	
	Foster citizen engagement	Produce guidelines for citizen engagement and consensus building	Set a tool with a dashboard on citizen engagement	

ANNEX 3A. SOE OWNERSHIP

Table 21: SOE ownership

SOE Name	Established (Year)	State shareholding	Oversight	Sector
ZESCO	1970	100%	IDC	**Energy and Infrastructure**
INDENI	1973	100%	IDC	
Lusaka South MFEZ	2010	100%	IDC	
INFRATEL	2017	100%	IDC	
Bangweulu Power Company	2016	20%	IDC	
Ngonye Power Company	2016	20%	IDC	
Tazama	1968	100%	IDC	
ZAMTEL	1994	100%	IDC	**Transport and Communication**
Mpulungu Harbour Corporations Limited	1930	100%	IDC	
Zambia Railways Limited	1982	100%	IDC	
Zambia Airways	2018	100%	IDC	
Zambia Cargo & Logistics	2001	100%	IDC	
Times Printpak	1993	100%	IDC	
Zambia Daily Mail	1965	100%	IDC	
Zambia National Broadcasting Corporation	1941	100%	MOFNP	
National Airports Corporation	1946	100%	MOFNP	
ZAFFICO	1982	62.8%	IDC	**Mining, Agriculture, Forestry and Fishery**
ZCCM-IH Plc	2000	60.30%	IDC	
Kawambwa Tea Industries	1969	100%	IDC	
KAGEM Mining	1985	25%	IDC	
Development Bank of Zambia	1972	N/A	N/A	**Banking and Financial services**
ZSIC General Insurance	2008	100%	IDC	
ZSIC Life	2008	100%	IDC	
ZANACO Bank PLC	1969	24.80%	IDC	
Indo-Zambia Bank	1984	40%	IDC	
Zambia Industrial Commercial Bank	2018	30.21%	IDC	
Zambia Reinsurance	2006	28.17	IDC	

SOE Name	Established (Year)	State shareholding	Oversight	Sector
Natsave	1972	100%	MOFNP	
Public Service Microfinance	2013	100%	MOFNP	
Industrial Development Corporation	2014	100%	MOFNP	
Zambia National Building Society	1970	100%	MOFNP	
Nitrogen Chemicals of Zambia	1969	100%	IDC	**Manufacturing**
Superior Milling	-	76%	IDC	
Munushi Fruit Company	2019	100%	IDC	
ZAMPALM	2009	90%	IDC	
Zambezi Cashew Company	2018	100%	IDC	
Eastern Tropical Company	2017	70%	IDC	
Kalene Hills Fruit Company	2017	100%	IDC	
Marcopolo Tiles Company	2017	22.6%	IDC	
Mulungushi International Conference Centre	1970	100%	IDC	**Health Tourism and Real Estate**
Lusaka Trust Hospital	1981	45%	IDC	
Mulungushi Village Complex	1970	100%	IDC	
Mukuba Hotel	1986	100%	IDC	
National Housing Authority	1975	100%	MOFNP	
Zambia international trade fair	1956	100%	MOFNP	

Source: MOFNP and IDC

ANNEX 3B. SOE DATA AVAILABILITY AND COVERAGE

Table 22: Availability of SOE financial statements by year

2018	2019	2020	2021	2022
ZESCO	ZESCO	ZESCO	ZESCO	ZESCO
ZAMTEL	ZAMTEL	ZAMTEL	ZAMTEL	ZAMTEL
ZANACO	ZANACO	ZANACO	Kawambwa Tea Industries	Kawambwa Tea Industries
ZACL	ZACL	ZACL	INDENI	Lusaka South MFEZ
INDENI	INDENI	Kawambwa Tea Industries	Lusaka South MFEZ	INFRATEL
Lusaka South MFEZ	ZSIC General Insurance	INDENI	INFRATEL	ZSIC General Insurance
ZSIC General Insurance	ZSIC Life	Lusaka South MFEZ	ZSIC General Insurance	ZSIC Life
ZSIC Life	Mulungushi International Conference Centre	INFRATEL	ZSIC Life	Mulungushi International Conference Centre
Mulungushi International Conference Centre	Mulungushi Village Complex	ZSIC General Insurance	Mulungushi International Conference Centre	Mulungushi Village Complex
Mulungushi Village Complex	Mpulungu Harbour Corporation Limited	ZSIC Life	Mulungushi Village Complex	Mpulungu Harbour Corporation Limited
Mpulungu Harbour Corporation Limited	Zambia Railways Limited	Mulungushi International Conference Centre	Mpulungu Harbour Corporation Limited	Zambia Daily Mail
Zambia Railways Limited	Zambia Daily Mail	Mulungushi Village Complex	Zambia Daily Mail	ZAFFICO Plc
Zambia Daily Mail	Zambia international trade fair	Mpulungu Harbour Corporation Limited	Zambia international trade fair	KAGEM Mining
Public Service Microfinance	Public Service Microfinance	Zambia Railways Limited	Natsave	
Tazama	Tazama	Zambia Daily Mail	Tazama	

Development Bank of Zambia	Development Bank of Zambia	Zambia international trade fair	Zambia Industrial Commercial Bank
ZAFFICO Plc	ZAFFICO Plc	Natsave	KAGEM Mining
ZCCM-IH Plc	ZCCM-IH Plc	Public Service Microfinance	
Lusaka Trust Hospital	Lusaka Trust Hospital	Tazama	
Indo-Zambia Bank	Indo-Zambia Bank	Development Bank of Zambia	
Zambia Industrial Commercial Bank	Zambia Industrial Commercial Bank	ZAFFICO Plc	
		ZCCM-IH Plc	
		Indo-Zambia Bank	
		Zambia Reinsurance	

Source: Authors

Table 23: SOE data included in the fiscal risks and costs analysis (2018-20)

ZESCO	**Non-Financial SOEs**
INDENI	
Lusaka South MFEZ	
Tazama	
Mulungushi International Conference Centre	
Mulungushi Village Complex	
ZAFFICO Plc	
ZCCM-IH Plc	
ZAMTEL	
ZACL	
Mpulungu Harbour Corporation Limited	
Zambia Railways Limited	
Zambia Daily Mail	
ZANACO	Financial SOEs
ZSIC General Insurance	
ZSIC Life	
Public Service Microfinance	
Development Bank of Zambia	
Indo-Zambia Bank	

Source: Authors

ANNEX 3C. RECENT SOE DEVELOPMENTS

BOX 6: Remodeling of INDENI

In 2021, the government announced that INDENI Petroleum refinery had been placed on care and maintenance as part of reforms aimed at promoting efficiency and stability in the petroleum sector. According to estimates, INDENI required over USD 500 million in capitalization for equipment upgrades. This resulted in fewer employees working at INDENI, with the remaining employees being reassigned to manage fuel storage depots. The statement highlighted that over the years, the sector had been marred by inefficiencies that had increased the cost of various petroleum products. Therefore, the reforms were aimed at ensuring adequate, reliable, and affordable supply of petroleum products in the country. Furthermore, the overall objective of the reform was to increase the security of the supply of petroleum products in the country.

Subsequently, the government began looking at modalities to reduce the cost of transporting petroleum products and improve efficiency in delivering them. The government further explained that it was in the process of transporting low sulfur gasoil (LSG—Diesel) through the TAZAMA Pipelines as part of the reforms. Additionally, products such as petrol, jet A1, liquified petroleum gas (LPG), kerosene, and heavy fuel oil (HFO) would be transported by road as they would no longer be produced at the refinery. Shutting down the refinery and repurposing the pipeline were critical for enabling the government to end fuel subsidies, which were a drain on the fiscus and detrimental to climate change.

Following these reforms, the Minister of Energy then announced that refining operations had commenced following the receipt of commingled feedstock from the pipeline. The refinery, which had been inactive for nearly 18 months, had received and stored the entirety of the commingled feedstock, approximately 94,000 cubic meters each for both INDENI and TAZAMA tanks. The maintenance of the INDENI Energy plant, completed on March 17, 2023, prepared for the upcoming operations. Additionally, the Minister reported that the conversion process of the TAZAMA pipeline was nearing completion, with 90 percent of the works scheduled to finish by March 18, 2023. All crude oil stored in the pipeline since INDENI Refinery's shutdown in April 2021 had been cleared for refining. The operationalization of the TAZAMA Pipeline to transport finished products was expected to decrease diesel pump prices by cutting transportation costs, while the government aimed to further reduce fuel prices by introducing bulk purchases of petroleum products to streamline procurement and benefit consumers.

BOX 7: BOZ Takes over of DBZ

On July 21, 2023, the Bank of Zambia (BOZ), as the Central Bank, announced that it had taken possession of the Development Bank of Zambia (DBZ), a non-deposit-taking financial institution. The Central Bank cited non-compliance with the Banking and Financial Services (Capital Adequacy) Regulations as the reason for this action. Additionally, the Central Bank found that DBZ was undercapitalized. Despite ongoing discussions, the shareholders, and Board of Directors of DBZ were unable to rectify the regulatory capital deficiency. As a result, BOZ exercised its authority under the law to protect the interests of the public and maintain the integrity of the financial system. Consequently, DBZ came under the possession of the Central Bank, and a statement of the institution's assets and liabilities would be prepared in accordance with the provisions of the Banking and Financial Services Act of 2017.

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The World Bank
Evexia Commercial Complex Plot
#1014, 4th Floor, Church Road
Lusaka
P.O. Box 35410
Lusaka, Zambia

Tel: (260-21) 137-3200
Fax: (260-21) 137-3248

www.worldbank.org/zambia
commszambia@worldbank.org

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