Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD461

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 95.2 MILLION (US$125 MILLION EQUIVALENT) TO

REPUBLIC OF ZAMBIA

FOR THE

SECOND MACROECONOMIC STABILITY, GROWTH AND COMPETITIVENESS DEVELOPMENT POLICY FINANCING

November 29, 2023

Macroeconomics, Trade and Investment Global Practice
Eastern and Southern Africa Region

Republic of Zambia

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(exchange rate effective as of October 31, 2023)

currency unit: Zambian kwacha (ZMW)

US$1.00 = ZMW 22.19

ABBREVIATIONS AND ACRONYMS

8NDP	Eighth National Development Program
BoZ	Bank of Zambia
ASA	Advisory Services and Analytics
COVID	Coronavirus disease
CPF	Consumer price index
CPIA	Country Policy and Institutional Assessment
DCC	Debt-carrying capacity
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ERB	Energy Regulatory Board
FCDO	Foreign, Commonwealth and Development Office
FDI	Foreign direct investment
FISP	Farmer Input Subsidy Programme
FRA	Food Reserve Agency
GDP	Gross domestic product
GHG	greenhouse gas
GIZ	*Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation)
GREAT-TBP	Green, Resilient and Transformational Tourism Development Project
GRS	Grievance Reporting System
GRZ	Government of the Republic of Zambia
IDA	International Development Association
IMF	International Monetary Fund
IPF	Investment Project Financing
IRP	Integrated Resource Plan
ITBD	International Trade and Business Development
MCTI	Ministry of Commerce, Trade, and Investment
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MOFNP	Ministry of Finance and National Planning
MOU	memorandum of understanding
MTBP	Medium-term Budget Programme
NDC	Nationally Determined Contribution
OMC	Oil marketing company
PDMA	Public Debt Management Act
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PIMA	Public Investment Management Assessment
PPG	Public and publicly guaranteed
PPP	Public-private partnership
SDR	Special Drawing Right
SME	Small- and medium-sized enterprise
TAZAMA	Tanzania-Zambia Pipeline, Limited
VAT	Value-added tax
WTO	World Trade Organization
ZAMGRO	Zambia Growth Opportunities (program)
ZATP	Zambia Agribusiness and Trade Project
ZESCO	Zambia Electricity Supply Corporation

Regional Vice President:	Victoria Kwakwa
Country Director:	Nathan M. Belete
Regional Director:	Hassan Zaman
Practice Manager:	Abha Prasad
Task Team Leaders:	Philip Schuler and Albert Pijuan

REPUBLIC OF ZAMBIA

SECOND MACROECONOMIC STABILITY, GROWTH AND COMPETITIVENESS DPF

TABLE OF CONTENTS

The proposed Second Macroeconomic Stability, Growth and Competitiveness Development Policy Financing was prepared by a team led by Philip Schuler and Albert Pijuan and consisting of Lobna Mohamed Abdellatif Ahmed, Lydie Ahodehou, Donna Andrews, Patrick Thaddayos Balla, Bill Battaile, Aghassi Mkrtchyan, Francis Chibwe, Soujanya Chodavarapu, Paavo Eliste, Isaku Endo, Hazem Ibrahim Hanbal, Wedex Ilunga, Priyanka Kher, Sophia Muradyan, Maria Gabriela Farfan Betran, Karima Ladjo, Silvia Mauri, Vanina Daphne Forget, Namuchana Muyawa, Temwanani Karen Phiri, Monali Ranade, Chris Saunders, Joseph Simumba, Jorge Tudela Pye, Mustafizur Rahman, Nathan Rono Tuimising, and Francis Zulu. The team worked under the direction of Nathan Belete (Country Director), Hassan Zaman (Regional Director), Achim Fock (Country Manager), Sahr Kpundeh (Country Manager), and Abha Prasad (Practice Manager). Sylvia Solf, Rich Walker, and David Elmaleh graciously served as peer reviewers.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P181011	Yes	2nd in a series of 2

Proposed Development Objective(s)

The program development objectives are to help Zambia restore macroeconomic stability and debt sustainability and promote private-sector-led inclusive growth.

Organizations

Borrower: REPUBLIC OF ZAMBIA

Implementing Agency: Ministry of Finance and National Planning

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**125.00**

DETAILS

International Development Association (IDA)	125.00
IDA Grant	125.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Result Indicator (RI) Name	Baseline	Target
RI 1. Percentage of public and publicly guaranteed (PPG) loans approved by Parliament	N/A	100 percent [2023–25]
RI 2. Lag between a quarter's end and publication of the quarterly debt bulletin	128 days on average [2021 bulletins]	60 days on average [2023–2025 bulletins]
RI 3. Variance between actual and planned primary spending in the budget (commitment basis)	27 percent [2019]	Below 10 percent [2025]
RI 4. Share of Farmer Input Support Programme (FISP) beneficiaries that obtain e-vouchers	0 [2021]	70 percent [2025]
RI 5. Maize exports as a share of non-traditional exports	2 percent [2021]	5 percent [2025]
RI 6. Percentage of rural households with access to electricity - Of which, rural female-headed households	11.9 percent [2018] 6.8 percent [2018]	44.5 percent [2025] 12.0 percent [2025]
RI 7. Fuel arrears to oil marketing companies (OMCs)	US$597 million stock [2021]	No new arrears [2024-2025]
RI 8. Value of private green loans for climate change mitigation and adaptation to SMEs - Of which, women-owned SMEs	None [2023] None [2023]	US$200 million US$10 million [2025]
RI 9. Number of investments materialized as a proportion of investor inquiries	3 percent [2021]	6 percent [2025]

IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE REPUBLIC OF ZAMBIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) is the second of two operations in a programmatic series aimed at helping Zambia restore macroeconomic stability and debt sustainability and promote private-sector-led inclusive growth.** The SDR 95.2 million (US$125 million equivalent) grant is part of the World Bank's multi-sectoral support to help Zambia emerge from the debt crisis and shift to a more sustainable and inclusive economic growth path. The Program Development Objectives (PDOs) will be achieved through reforms aimed at: 1) restoring fiscal and debt sustainability; 2) increasing farmer productivity and access to agricultural markets; 3) ensuring sustainable access to energy; and 4) enhancing access to finance and private sector development. The proposed operation aligns with Zambia's Eighth National Development Plan for 2022–2026 (8NDP), as well as IDA20's Policy Commitments in Governance and Institutions and Jobs and Economic Transformation. Finally, it also supports Zambia in its efforts to obtain deep debt restructuring under the G-20 Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (from now on, "Common Framework").

2. **The Government of the Republic of Zambia (GRZ) is committed to fiscal and structural reforms to restore macroeconomic stability, reinvigorate growth, and reduce poverty.** During the 2010s, unsustainable macroeconomic policies, falling copper prices, and imprudent borrowing sharply increased external public and publicly guaranteed (PPG) debt. Deteriorating economic conditions during the global COVID-19 pandemic led the GRZ to default on its external bonds in November 2020. After the current administration's election in 2021, the GRZ launched an ambitious reform program. It improved the primary balance (commitment basis) by 6.6 percentage points in 2022, bringing it to a surplus and cutting inflation by half. The authorities have introduced bold measures to boost private investment and rebalanced the composition of government spending by canceling wasteful investment projects, withdrawing state intervention from the energy sector, transforming agricultural subsidies to invest in human development.

3. **Zambia has reached an agreement with official creditors to restructure external debt.** Official external creditors and Zambia finalized a memorandum of understanding (MOU) on terms of debt restructuring in October 2023 (and expect to sign it by December). Official creditors agreed to substantially reduce the net present value of outstanding debt by rescheduling all principal owed, providing a grace period on principal repayments during 2023–25, and charging a small interest rate during that period. After that, the authorities will resume debt service at a pace that depends on Zambia's debt-carrying capacity in 2026. The GRZ is also negotiating in good faith with external bondholders for debt reduction on comparable terms (Box 1). These agreements will downsize Zambia's debt stock and servicing to a sustainable level, as determined under the World Bank-International Monetary Fund (IMF) Debt Sustainability Framework. Debt restructuring gives the GRZ fiscal space to reorient government spending and provides greater certainty to private investors.

4. **Although debt restructuring provides breathing space to restore macroeconomic stability, Zambia's structural challenges remain, including high vulnerability to climate change.** Suboptimal private-sector activity, weak macroeconomic performance, and successive negative shocks—including climate—increased poverty rates. The population below the poverty line is estimated to have risen from 54.4 percent in 2015 to 60 percent in 2022.[1] Zambian households were severely hit by the COVID-19 pandemic, with welfare losses in urban areas and among those working in the informal sector. Rising food prices and reduced access to social services compounded job and income losses. Rural poverty remains stubbornly high, with almost 80

[1] Zambia Statistical Agency (2023). Highlights of the 2022 Poverty Assessment in Zambia.

percent of the rural population living below the poverty line by 2022. Besides, Zambia is one of the most unequal countries in the world, with a Gini coefficient estimated at 0.56 in 2015. In the last two decades, the frequency and intensity of extreme weather conditions have increased, with more frequent floods and droughts, rising temperatures, and droughts affecting crop and livestock production, electricity generation, and open-pit mining. The changes in temperature and rainfall projected for Zambia are expected to reduce maize yields—disproportionately affecting the poor, because around 90 percent of smallholders relay on rainfed production.[2] Hydropower accounts for over 80 percent of the installed power generation capacity, making the country vulnerable to increased rainfall variability.

Box 1. Zambia's External Debt Restructuring under the Common Framework

Official external creditors and the GRZ agreed in October 2023 on an MOU outlining treatment covering around US$6.3 billion of official debt. Official creditors will reduce the net present value of outstanding debt by rescheduling all principal owed, providing a grace period on principal repayments during 2023–25, and charging a small interest rate. The authorities will subsequently resume debt service at a pace that depends on Zambia's debt-carrying capacity in 2026, as discussed below. Most have signed the MOU and the remainder are expected to sign by the end of December 2023.

The debt treatment is based on a quantified two-stage approach that adjusts the volume of debt relief according to Zambia's debt-carrying capacity (DCC). At the end of the ECF program (detailed in paragraph 16), a one-time validation test will determine Zambia's DCC and inform the stock treatment of debt in the second phase. The DCC is evaluated using a composite indicator that captures the World Bank's Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and the world's economic growth. It additionally incorporates forward-looking elements through continuous engagement with country authorities.* If Zambia's economic conditions improve and the DCC is upgraded from 'weak' to 'medium,' principal reimbursements would be accelerated and interest payments increased; otherwise, they would continue under the baseline scenario. Both cases are consistent with the IMF-World Bank Low-income Country Debt Sustainability Framework.

Zambia is seeking comparable treatment with its external commercial lenders. Although Zambia reached agreement in principle in October 2023 with the steering committee representing Eurobond holders to restructure US$3 billion of international bonds, the terms of this agreement were not found to comparable to terms agreed with the OCC, and Zambia announced on November 20, 2023, that it would continue discussions in good faith with all relevant parties. Zambia has committed not to service external debt for which comparability of treatment applies without entering an agreement on terms at least as favorable as those agreed with the OCC.

* See IMF and World Bank (2017). Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries.

5. **The proposed operation addresses some of these developmental challenges by supporting critical growth-enhancing and competitiveness reforms while seeking to reduce poverty on a more livable planet.** Reforms aimed at increasing farmers' productivity, expanding access to electricity and finance, and generating greater private sector dynamism will create more and better jobs that reduce poverty and inequality. A more predictable investment climate will increase external financing and boost Zambia's competitiveness. Additionally, the proposed operation supports measures that will help unlock private financing for green investments, increase the resilience of agriculture and electricity generation to climate shocks, and diversify Zambia's energy mix to non-hydro renewables. Prudent stewardship of public finances that will reduce Zambia's public debt burden and free up public resources to invest in the Zambian people are central to this programmatic series.

[2] See, for example, Siatwiinda, S.M., Supit, I., van Hove, B. et al. Climate change impacts on rainfed maize yields in Zambia under conventional and optimized crop management. Climatic Change 167, 39 (2021).

6. **The proposed operation is also an integral element of a growing IDA portfolio that has helped Zambia respond to multiple crises since 2020.** The active portfolio has more than doubled to US$2.9 billion since the onset of the global pandemic in 2020. To support Zambia's debt restructuring, the World Bank is providing increased net positive flows of highly concessional financing—on grant terms for new operations approved after July 1, 2023. IDA financing enabled the government to protect pro-poor expenditures during this period of fiscal consolidation and buffer the poor and vulnerable from the pandemic and other shocks. The portfolio also finances investments that mutually reinforce the policy reforms supported by the proposed DPF in governance, agricultural transformation, energy sector governance, and the business-enabling environment (Section 4.3).

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

7. **Zambia has pursued prudent macroeconomic policies since the approval of DPF1 in October 2022**. These policies have enabled the Zambian economy to recover from the multiple crises of 2020–21 despite a challenging environment. GDP grew robustly at 5.2 percent in 2022 and is expected to expand by 4.3 percent in 2023 (Table 1), driven by strong momentum in services—notably transport, information and communications, and hospitality—and countering low mining production.[3]

8. **Zambia's external position has worsened with a softening of copper exports and uncertainty about debt restructuring.** The current account slipped into deficit starting in 2022Q4. A 19 percent drop in world copper prices since their March 2022 peak, combined with lower mining output, reduced the value of copper exports—Zambia's largest export earner—by 23 percent y/y in the first half of 2023. Lower copper exports outweighed increased non-traditional exports and the recovery of tourism receipts, which have reached pre-pandemic levels. Meanwhile, the increased purchases of capital and consumer goods caused a sharp increase in import spending. Strong investor confidence and interest in new projects, especially mining, improved FDI inflows. As of end-October, the kwacha has depreciated by 21 percent against the U.S. dollar since the beginning of the year, although this trend masks appreciation episodes in March and June around news of expected breakthroughs in debt restructuring negotiations. Exchange rate pressures and central bank interventions have reduced the stock of international reserves to 2.9 months at end-June 2023 from covering 3.8 months of imports at the end of December 2022. Still, the IMF's recent external stability assessment shows that Zambia's external position broadly aligns with its fundamentals.[4]

9. **Inflation has risen into double digits rates.** Primarily driven by exchange rate depreciation, rising fuel prices, and increasing demand for maize in the region, both food and non-food inflation have picked up, leading to a broad-based increase in headline inflation (12.6 percent in October, y/y from 10.2 percent in August). The Bank of Zambia (BoZ) has taken steps to control inflation, which remains well above its 6–8 percent target range. Between February and August 2023, BoZ raised the policy rate by 100 basis points

[3] Mining suffered from weather-induced disruptions in early 2023, softening of copper prices around mid-2023, and legacy operational challenges at two notable mining outfits. Zamstats recently revised the growth rates upwards for 2021 and 2022, and, combined with the finalization of the debt restructuring MOU, they are expected to strengthen economic performance in 2023.

[4] IMF, Staff Report for the 2023 Article IV Consultation, First Review under the Extended Credit Facility Arrangement, and Financing Assurances Review, IMF Country Report No. 23/256, July 2023

(cumulatively) alongside scaled-up interventions to reduce foreign exchange shortages and mitigate speculative demand.[5]

Table 1. Selected Economic Indicators, 2020–2026

	2020	2021	2022	2023e	2024p	2025p	2026p
National accounts							
Real GDP growth rate	-2.8	6.2	5.2	4.3	4.7	4.8	4.8
Agriculture	17.2	6.9	-11.0	-2.9	5.8	3.1	3.9
Mining	8.0	-4.7	-3.7	-4.4	9.3	11.0	10.5
Non-mining, non-agricultural	-5.6	7.7	7.8	5.7	4.2	4.3	4.2
Nominal GDP (billion kwachas)	332.7	442.3	494.0	567.9	657.9	742.4	829.3
Money and prices							
Credit to private sector (y/y growth)	8.5	-7.8	34.2	27.5	25.2	25.2	25.8
Inflation rate (period average, y/y change)	15.7	22.0	11.0	11.0	11.4	7.8	7.0
External (percent of GDP)							
Current account balance	10.6	9.7	3.7	0.2	2.6	4.6	6.6
Exports of goods	44.1	50.7	39.5	40.7	42.7	43.0	44.4
o/w copper	32.4	38.0	27.9	26.0	26.7	27.8	29.7
Imports of goods	-26.4	-28.9	-27.9	-33.1	-33.6	-31.9	-31.0
Primary and secondary income, net	-5.6	-10.0	-5.6	-5.6	-5.6	-5.5	-6.0
o/w interest on public debt	-3.5	-3.3	-3.1	-2.9	-2.9	-2.8	-3.3
Foreign direct investment inflows, net	1.0	3.1	1.2	1.4	2.1	3.1	3.9
Portfolio investment inflows, net	1.1	4.5	-1.1	-0.1	-0.3	-0.4	-0.1
Nominal exchange rate (average)	18.3	20.0	17.0	20.0	...	...	...
Gross reserves (months of imports)	1.9	3.3	3.3	3.0	4.2	5.0	5.0
Fiscal (percent of GDP)							
Fiscal balance (cash basis)	-13.8	-8.1	-7.8	-5.2	-4.7	-4.3	-5.6
Fiscal balance (commitments)	-17.3	-13.9	-5.4	-5.8	-3.0	-2.6	-4.1
Public and publicly guaranteed debt	150.3	112.1	110.9	115.6	106.5	98.8	92.8
Domestic	95.8	57.8	58.8	72.0	68.1	65.1	61.6
External	54.5	54.4	52.1	43.6	38.4	33.7	31.2

Source: Zambian authorities, IMF, and World Bank staff estimates and projections.
Note: Debt stock data are pre-restructuring.

10. **The GRZ remains committed to fiscal consolidation**. The government reversed years of lapses in budget credibility. It 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 (mainly financed by external borrowing). At end-June 2023, fiscal balances remained within budget despite declining fiscal revenues on account of lower mining production. The government cut expenditures on the Farmer Input Support Programme (FISP) and delayed disbursements on local development spending to match expenditure with total revenue.

11. **The banking sector remains sound.** The BoZ rated commercial banks' overall financial performance as satisfactory at the end-June 2023. Profits significantly increased—contributing strongly to capital growth—reflecting strong retained earnings. The decline in the volume of non-performing loans (at 4.6 percent) and strong profitability supported average regulatory capital to increase from 22.6 percent of risk-weighted

[5] In November 2023, the Bank of Zambia increased the statutory reserve ratio on local and foreign currency deposits by three percentage points (cumulatively 5.5 percentage points in 2023) to reduce exchange rate volatility and safeguard foreign exchange market stability.

assets at end-July 2022 to 24.6 at end-July 2023. Liquidity conditions and several other key performance indicators also surpassed minimum prudential benchmarks. Lending to the government declined in 2023H1 after the repayment of loans and advances for procurement of farming inputs front-loaded in 2020Q4. This has created lending space for private sector credit, which had declined to 8.8 percent of GDP in 2022 from 12.2 percent before the COVID-19 pandemic.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **The Zambian economy is expected to expand, with the real GDP growth rate projected to average 4.8 percent annually in 2024–26.** This outlook assumes firmer global copper demand and production ramping up, especially at Konkola Copper Mine, and the finalization of debt restructuring.[6] A recent overhaul of the mining fiscal regime seeking to stimulate copper production from 800,000 tons to 3 million tons per annum and a solid global low-carbon energy transition will induce vigorous mining investments and production and services that support the sector. A final debt restructuring deal would eliminate the uncertainty that has been driving exchange rate volatility. Business regulatory reforms underway will encourage higher foreign direct investment (FDI) inflows. The sustained primary fiscal surpluses anchored in the IMF program should reduce the state's competition with the private sector for domestic credit. Finally, the clearance of expenditure arrears and the backlog of value-added tax (VAT) refunds will place additional cash into firms.

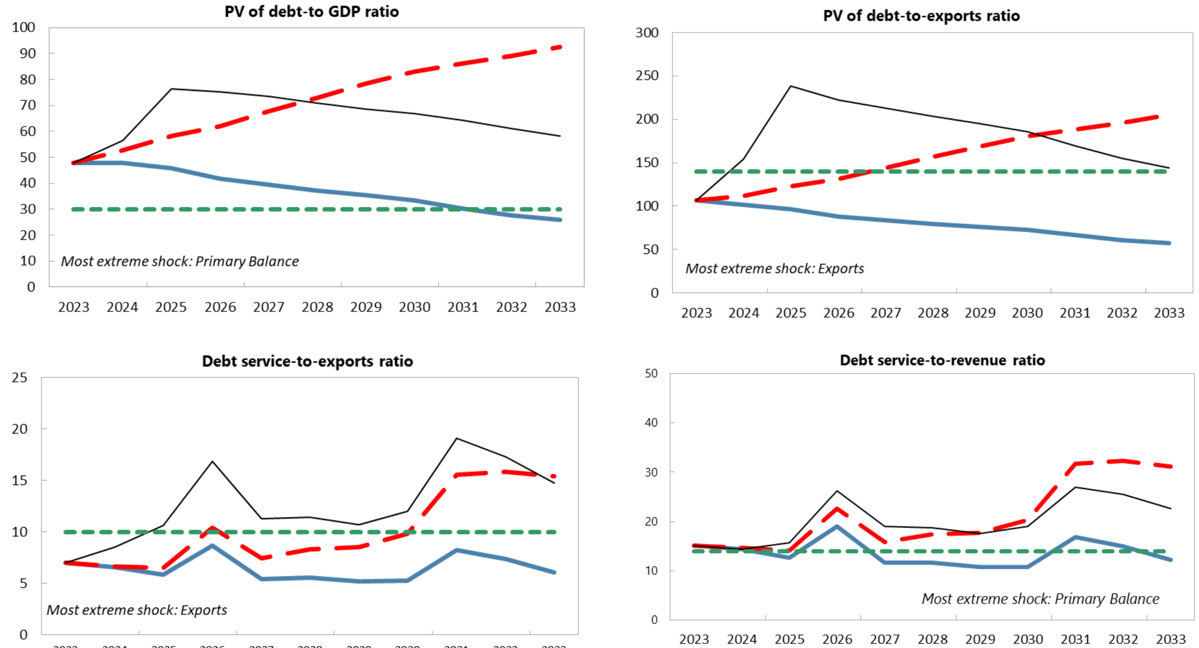
13. **Downside risks for Zambia's economic outlook are considerable.** Copper revenues may remain constrained because of lower ore grades, delayed investments in the sector, or weakening copper prices owing to subdued global growth or a slowdown in the Chinese economy, a central market for Zambia's copper exports. The effects of climate change pose a risk to food security and hydropower generation. There could be additional inflationary pressures from a depreciating kwacha (due to elevated import demand and foreign debt service) or climate-driven food shortages. Finally, external challenges could pressure fuel, fertilizer, and food prices, increasing inflation and spending on agricultural inputs.

14. **Zambia and official creditors have agreed on terms of debt restructuring, paving the way for completing negotiations with commercial lenders on comparable terms**. The July 2023 Debt Sustainability Analysis (DSA) shows Zambia's total public and external debts are unsustainable and remain in distress, absent of a deep debt restructuring.[7] However, the DSA also assessed debt to be sustainable in a forward-looking scenario where debt treatment agreed with the official bilateral creditors is applied and commercial claims are treated on comparable terms. Completing debt treatments should give Zambia breathing space to restore debt sustainability and bolster macroeconomic stability, reinforcing the authorities' ambitious reform program and accelerating resilient and inclusive economic growth. A DSA update is under preparation for the forthcoming IMF review of the ECF program. It maintains the restructuring assumptions and scenarios as the July DSA while updating the macroeconomic framework with the latest data. Preliminary simulations show no material changes in debt sustainability risks since the July DSA.

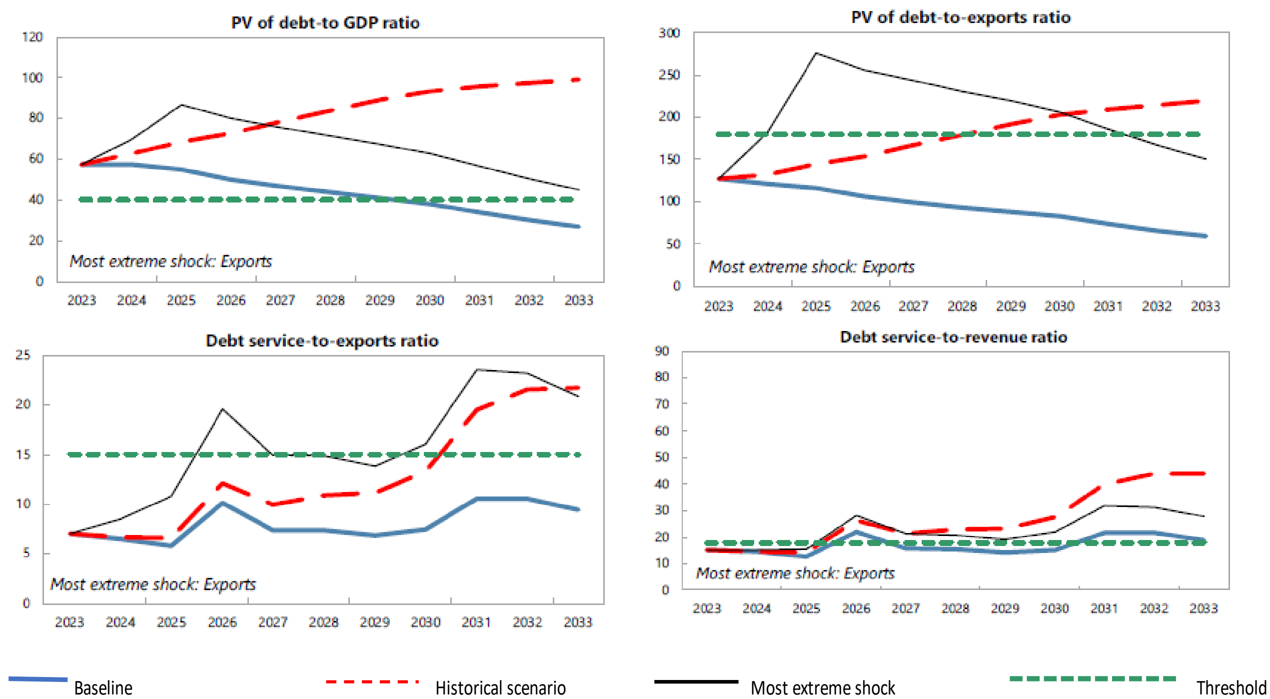
[7] World Bank and IMF, "Zambia: Joint World Bank-IMF DSA," IDA/SecM2023-0201, July 2023.

Figure 1. DSA Simulations of External PPG Debt in a Post Debt-restructuring Scenario, 2023–2033

Base Case Treatment



Upside Case Treatment



Source: World Bank-IMF DSA, July 2023.
Notes: The base case alternative scenario assumes that Zambia's debt-carrying capacity remains weak in 2026. The upside case alternative scenario assumes that economic performance (GDP growth, reserves, and remittance inflows) improves such that Zambia's debt-carrying capacity is upgraded to medium in 2026.

15. **Zambia's macroeconomic policy framework is considered adequate for development policy financing in the expectation of deep debt restructuring in line with the DSA.** This assessment reflects the MOU agreed between the authorities and the official creditors in October 2023, covering US$6.3 billion and delivering a 40 percent net present value reduction through delaying principal repayments and reducing interest charges. It also rests on Zambia reaching comparable treatment with its external private creditors (Figure 1 and Box 1). In parallel, GRZ has pursued and maintained critical reforms, regaining control of public finances, building a solid foundation for economic recovery and accelerated growth, and gaining creditors' trust.[8] These policy and institutional reforms are reversing the adverse effects of past unsustainable macro-fiscal policies and shocks that triggered the external debt default during the unfolding of the global "polycrisis." The administration has employed the fiscal space created by canceling wasteful investment projects and withdrawing state support from the energy sector into human development investments and enhanced social protection since it took office in 2021. Finally, it is overhauling business regulations to create a conducive environment for private investment and international competitiveness.

[8] The African Development Bank (AfDB) and IMF have provided assurances to deliver net positive flows of financing to support debt restructuring, and new IDA financing approved starting in FY24 is exclusively on grant terms.

Table 2. Government Financial Operations, 2020–2026

(percent of GDP)

	2020	2021	2022	2023e	2024p	2025p	2026p
Revenue and grants	**20.3**	**22.4**	**20.4**	**20.9**	**21.3**	**21.8**	**21.9**
Tax revenue	19.3	21.4	19.6	19.5	21.3	21.7	22.0
Income and profits	15.7	16.1	16.1	16.7	16.8	17.1	17.3
VAT and excise	5.8	5.4	5.3	7.1	6.9	6.9	6.9
International trade	1.1	1.2	1.1	1.3	1.3	1.3	1.2
Non-tax revenue	4.1	5.7	3.9	3.7	3.8	4.0	4.3
Grants	0.5	0.6	0.4	0.5	0.7	0.7	0.4
Expenditures	**34.0**	**30.5**	**28.2**	**27.1**	**27.4**	**26.5**	**27.6**
Current	26.3	26.6	24.8	24.5	24.0	23.4	24.0
Compensation of employees	8.1	7.2	7.6	8.0	8.0	7.9	7.8
Goods and services	3.1	3.4	2.6	2.7	2.7	2.6	3.0
Interest	5.9	6.1	6.2	6.4	6.3	6.4	6.9
Domestic	4.4	5.6	6.1	4.7	4.7	4.6	5.1
Foreign	1.6	0.4	0.1	1.7	1.6	1.7	1.8
Subsidies	5.5	5.5	2.2	2.1	1.8	1.5	1.4
o/w FISP, Food Reserve Agency	3.5	2.7	1.7	1.9	1.6	1.2	1.2
o/w fuel and power	1.5	2.4	0.4	0.2	0.2	0.2	0.2
Intergovernmental grants	2.3	2.0	3.1	2.7	2.7	2.6	2.6
Social protection	0.7	1.3	1.5	1.4	1.5	1.6	1.6
Other	0.7	1.1	1.5	1.2	1.0	0.8	0.7
Net acquisition of non-financial assets	7.7	3.9	3.4	2.7	3.4	3.1	3.6
Domestically financed	1.5	2.1	2.2	0.9	2.0	1.9	…
Externally financed	6.3	1.8	1.2	1.8	1.4	1.2	…
Overall balance (cash basis)	**-13.8**	**-8.1**	**-7.8**	**-6.2**	**-5.0**	**-4.5**	**-5.7**
Primary balance (cash basis)	-7.8	-2.1	-1.6	0.2	1.3	1.9	1.2
Clearance of arrears (-=payments)	**3.6**	**5.8**	**-2.4**	**-0.4**	**-2.0**	**-1.8**	**-1.6**
Expenditure arrears	1.8	3.3	-2.8	-1.3	-1.4	-1.2	-1.1
Backlog of VAT refunds (flow)	0.5	0.4	0.4	1.0	-0.7	-0.6	-0.5
Arrears on external interest (flow)	1.3	2.1	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	**-17.3**	**-13.9**	**-5.4**	**-5.8**	**-3.0**	**-2.6**	**-4.1**
Primary balance (commitment basis)	-10.1	-5.8	0.8	0.6	3.3	3.7	2.7
Financing	**13.8**	**8.1**	**7.8**	**6.2**	**5.0**	**4.5**	**5.7**
Net acquisition of financial assets	-0.2	-0.6	-1.0	0.0	0.0	0.0	0.0
Domestic	0.2	0.6	0.3	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial liabilities	14.2	8.7	1.1	-0.8	-4.1	-1.7	0.5
Domestic	9.5	7.4	2.6	1.1	2.7	2.7	5.6
Foreign	4.7	1.2	-1.6	-1.9	-6.8	-4.4	-5.1
Exceptional financing	0.0	0.0	7.5	7.0	9.1	6.2	5.2
Statistical discrepancy	-0.2	0.1	0.2	0.0	0.0	0.0	0.0
Memorandum items							
Mining sector revenue	3.2	5.6	4.5	2.8	3.1	3.6	4.1

Source: Zambian authorities, IMF, and World Bank staff estimates and projections.
Note: Debt flow data are pre-restructuring.

Table 3. External Financing Needs and Sources, 2020–2026
(millions of U.S. dollars)

	2020	2021	2022	2023e	2024p	2025p	2026p
I. Total requirement	**2,594**	**5,619**	**3,299**	**3,386**	**4,419**	**3,939**	**3,634**
Current account deficit (excl. transfers)	-1,922	-2,138	-1,067	11	-637	-1,338	-2,206
Debt amortization due	1,426	1,917	2,685	2,252	3,138	2,426	2,507
Gross reserves accumulation	-248	1,604	258	-111	1,324	1,080	552
Other capital flows 1/	3,322	4,233	1,423	1,233	593	1,771	2,780
II. Total sources	**1,272**	**3,389**	**790**	**899**	**923**	**1,242**	**1,482**
Official transfers	80	77	76	141	221	232	159
BoZ liabilities, incl. SDR allocation	0	1,328	0	0	0	0	0
Foreign direct investment, net	181	674	338	390	638	994	1,376
Private sector loans, net	-608	-263	-206	-128	-242	-263	-284
Loan disbursements to public sector	1,424	571	914	529	409	405	254
Portfolio investment, net	194	1,002	-332	-33	-104	-127	-22
III. Financing need (I–II)	**1,322**	**2,230**	**2,509**	**2,487**	**3,496**	**2,697**	**2,152**
IV. Expected sources of financing	**1,322**	**2,230**	**2,985**	**2,487**	**3,489**	**2,697**	**2,152**
New AfDB/World Bank financing	0	0	476	133	381	319	337
World Bank			476	133	231	169	137
Credits			476	58	133	65	65
Grants			0	75	98	105	73
AfDB			0	0	150	150	200
IMF ECF Arrangement		0	187	376	376	376	0
Exceptional (arrears accumulation)	1,322	2,230	2,322	1,978	2,732	2,001	1,815

Source: Zambian authorities, IMF, and World Bank staff estimates and projections.
Notes: Pre-restructuring debt flow data. 1/ Other capital flows include repayments to IMF, financial derivatives, other assets, errors and omissions. 2/ Includes grants and credits disbursed from DPF, IPF, and PforR operations approved since December 2021.

2.3. IMF RELATIONS

16. **The IMF approved a 38-month program under the Extended Credit Facility (ECF) in the amount of SDR 978.2 million (US$1.3 billion) on August 31, 2022, and completed the first program review in July 2023** (Annex 2). Under the program, the authorities have taken bold steps to restore fiscal sustainability, raise social spending, and strengthen economic governance, seeking to reverse the impact of past economic mismanagement and shocks, such as COVID-19, and boost growth, create jobs, and reduce poverty. All quantitative performance criteria for the first review and nine structural benchmarks were met, with only marginal delays in the remaining two. The IMF and the authorities reached Staff Level Agreement on the second review of the ECF program on November 20, 2023, and the IMF Board discussion is expected to be held on December 20, 2023.[9] The World Bank and IMF continue to work closely to coordinate policy dialogue, analysis, and technical assistance. The joint work between the institutions includes supporting the authorities to comply with only concessional borrowing under IDA's Sustainable Development Financing Policy and IMF Debt Limit Policy.

3. GOVERNMENT PROGRAM

17. **The GRZ's bold reform program is anchored in its Vision 2030 and articulated with development priorities outlined in the 8NDP for 2022–2026.** Vision 2030's broad goal is for Zambia to become "a

[9] IMF, "IMF Reaches Staff-Level Agreement with Zambia on the Second Review of the Extended Credit Facility" (November 20, 2023). https://www.imf.org/en/News/Articles/2023/11/20/pr23401-zambia-imf-reaches-staff-level-agreement-second-review-of-ecf

prosperous middle-income country" by the end of this decade. Approved in April 2022, 8NDP aims to move Zambia toward that goal through interventions in four strategic development areas: i) economic transformation and job-creation; ii) human and social development; iii) environmental sustainability; and iv) a good governance environment. The plan was formulated to combat high public debt levels and a challenging economic situation exacerbated by the COVID-19 pandemic. Since the government was elected in August 2021, it has taken bold steps to reform subsidy programs, cancel non-performing projects, restore fiscal prudence, restrain inflation, improve the business regulatory environment, and attract private investment.

18. **8NDP identifies the economic transformation and job creation agenda as its critical strategic development area.** It emphasizes the need for trade facilitation and greater investment by the private sector to increase production, add value, and diversify the economy. The key drivers outlined by the 8NDP for economic transformation and job creation are the agriculture, mining, tourism, and manufacturing sectors, supported by strategic interventions in energy, transport, and water development.

19. **Climate action and environmental sustainability are key pillars for implementing the 8NDP.** The GRZ is strengthening its policy and environmental framework to adapt and mitigate the effects of climate change, natural resources and environmental management, and green growth strategies. In 2021, the country revised and updated its Nationally Determined Contribution (NDC), committing to a low carbon climate resilient development, which also includes implementing mitigation and adaptation actions and GHG emission reduction. The same year, Zambia created the Ministry of Green Economy and Environment to transition to a green growth pathway.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

20. **The proposed operation responds directly to the urgency of the multiple crises Zambia faces.** The DPF series has been designed to support critical elements of the reform plan adopted by GRZ after the August 2021 elections to restore macroeconomic stability and promote sustainable recovery and inclusive growth. It includes seven prior actions. The reform momentum on fiscal and private sector measures has been maintained, and energy reforms accelerated. Some challenging agricultural reforms are taking more time to implement. The policy matrix has been adjusted to reflect this progress. Five indicative triggers proposed under DPF1 were tightened and converted into prior actions, and two new prior actions were identified. Four indicative triggers were dropped because some reforms moved faster or required more time and consultation (Annexes 3 and 6). The DPF series also forms part of the World Bank's commitment to deliver increased net financing flows on highly concessional terms to Zambia to complement the debt treatment that creditors provide through the G20 Common Framework.

21. **The four pillars of the DPF series align closely with key areas of 8NDP**. Pillar A supports fiscal and debt management reforms that ensure a more sustainable debt stance and predictable public investments and fiscal commitments from public-private partnerships (PPPs). Pillar B supports agriculture reforms as part of a broader shift to inclusive growth, poverty reduction, and boost the non-copper economy. Pillar C aims to improve the operational efficiency of the energy sector to expand sustainable access to poor and vulnerable households, diversify to non-hydro renewables, and help address current fiscal imbalances by removing subsidies and improving efficiencies in the petroleum supply chain. Pillar D will support private sector development, green finance, and job creation efforts of the government through relevant legislation, regulations, and institutions.

22. **The proposed operation is aligned with the goals of the Paris Agreement**. First, the economic reform program supported by the proposed DPF is consistent with Zambia's climate commitments, including those that Zambia made in its (2016) and revised (2021) NDC, the 2017 National Health Adaptation Plan, and the climate objectives articulated in the 8NDP. Second, no prior actions for the proposed DPF will likely cause a significant increase in GHG emissions to impede Zambia's planned low-carbon development path. Third, all prior actions for the proposed DPF program are aligned with the mitigation goals of the Paris Agreement. Reforms to public administration (Pillar A) and the financial sector (Pillar D) are not sector-specific and are universally aligned. Agriculture sector reforms in Pillar B aim to increase agriculture productivity and trade but are not expected to expand the area under cultivation or increase the carbon intensity of production and are low risk. Programs promoting climate-smart agriculture mitigate risks. Energy sector reforms in Pillar C encourage investments in renewables and reduce the use of road transport for fuel supply. Finally, all prior actions align with the adaptation and resilience goals of the Paris Agreement. Reforms to public administration (Pillar A) and the financial sector (Pillar D) are not associated with any specific assets or activities that would be vulnerable to climate change. Therefore, climate hazards are unlikely to undermine their contribution to the PDOs. Reforms in Pillar B and C promote transition out of climate-vulnerable activities and investments.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Restoring fiscal and debt sustainability

Policy Area: Strengthen debt accountability and transparency

Prior action #1. To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.

23. **DPF 1 progress and rationale:** DPF1 supported the 2022 Public Debt Management Act (PDMA), which strengthens the management, accountability, and transparency of public debt. GRZ has implemented many new requirements introduced in the PDMA, including parliamentary approval of the 2023 annual borrowing plan and publication of the 2023–25 Medium-term Debt Management Strategy. The Ministry of Finance and National Planning (MOFNP) continues to produce and publish quarterly debt statistical bulletins—now a legal requirement under the PDMA. MOFNP is developing the structure for the new Debt Management Office established under the PDMA, which will replace the Investment and Debt Management Department (planned for early 2024). Still, continuous improvement in debt transparency and reliance on concessional financing is essential to address debt vulnerabilities and reassure official and private creditors during the debt restructuring.

24. **Substance of the reform:** MOFNP submitted the 2024 annual borrowing plan to the Parliament with the proposed annual budget. The plan presents GRZ's debt position, financing needs for the coming fiscal year, and the new loans and domestic securities proposed for meeting these needs. MOFNP worked with line ministries and creditors to ensure that only loans ready for signing in the coming fiscal year are included in the plan. The 2024 annual borrowing plan proposed no new non-concessional external borrowing.

25. **Expected outcomes:** Refraining from non-concessional external borrowing will maintain low costs and risks of debt and signal Zambia's commitment to prudent debt management to its creditors. The World Bank continues to deliver technical assistance to support improved debt management, cooperating closely with

the German Agency for International Cooperation (GIZ), IMF, Macroeconomic and Financial Management Institute of Eastern and Southern Africa, and other partners, which will contribute to achieving the expected results.

Policy Area: Improve fiscal governance and budget credibility

Prior action #2. To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued Cabinet Office Circular minute no.13 of 2023, which requires the appraisal of all major investment projects developed by Ministries, Provinces and Spending Agencies before their inclusion in inter alia the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill, which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation

26. **DPF 1 progress and rationale:** GRZ budgets have historically seen significant deviations between planned and executed spending. Many debt-financed public investments led to cost overruns and unsustainable debt accumulation without contributing to economic growth or job creation (Section 2.1). 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.[10] At the same time, despite having a policy and legal framework in place for almost 15 years to promote PPPs for public investment, Zambia saw little success in mobilizing private capital to support the public investment program and benefit from private sector efficiencies. DPF1 reforms strengthened commitment controls, improving budget credibility and fiscal discipline. In 2022, MOFNP also issued new public procurement regulations that, inter alia, require controlling officers in procuring entities to be trained in electronic government procurement (e-GP).

27. **Substance of the reform:** On June 8, 2023, the Cabinet issued a circular mandating all major projects and programs developed by Ministries, Provinces, and Spending Agencies be appraised (found to be technically feasible and economically viable). This requirement applies to all projects, whether financed by tax revenue, debt, PPP, or any other source of financing. Further, on July 23, 2023, the finance minister submitted a bill to repeal the PPP Act of 2009 and replace it with a fully modernized PPP law. The revised law will draw clearer distinctions between solicited and unsolicited proposals and strengthen procurement discipline. Critically, the law prescribes assessing fiscal commitments and contingent liabilities for projects before implementation. In addition to revising the PPP Law, MOFNP is preparing the PPP Fiscal Commitments and Contingent Liability Management Guidelines, which define roles, responsibilities, and procedures for assessing fiscal risks in proposed PPPs and managing risks during project development and implementation.

28. **Expected outcomes:** These measures are expected to enhance fiscal sustainability and budget credibility by ensuring that only high-quality project proposals, including PPPs, that are selected for implementation of the public investment program. By better planning capital spending and fiscal commitments and liabilities from PPPs, they will enhance budget execution rates and reduce variances between planned and actual expenditures. At the same time, the policy and institutional measures will help mobilize private financing for feasible public investments and with due regard to fiscal risks. Deepening the integration of PPPs into public investment management systems will ensure that proposed PPPs are screened for climate risks before entering the public investment program. However, to achieve the expected results,

[10] Chaponda, Taz et al. Zambia – Public Investment Management Assessment. IMF Technical assistance Report. April 2017.

public investment and PPP reforms will require preparing detailed appraisal methodologies in the sectors, PPP regulations to implement the new PPP law, guidelines on fiscal commitments and contingent liability management, practice notes on unsolicited proposals, and various PPP implementation templates. At the same time, capacity building will be needed across government in all phases of the project cycle. This support is intended to be designed, resourced, and delivered over the next year.

Pillar B: Increasing farmer productivity and access to agricultural markets

Policy Area: Remove input market distortions that impede productivity

Prior action #3. To increase farmer productivity, the Recipient, through its Cabinet, has approved the 'Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System', which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.

29. **DPF 1 progress and rationale:** About 80 percent of Zambia's agricultural budget is spent on FISP input subsidies. High fiscal costs, ill implementation, and distorted incentives have constrained the government's capacity to drive productivity growth, create better jobs for farmers, and alleviate poverty. The high cost of input subsidies has crowded out investments in irrigation, extension, and other agricultural programs that could drive productivity growth and climate change adaptation. In addition, FISP has not given farmers the flexibility to diversify into crops other than maize, yields of which are expected to decline as mean temperatures rise in the coming years.[11] DPF1 supported the GRZ's decision to replace direct input support of providing seeds and fertilizers with a system that electronically delivers a voucher that farmers can use to procure inputs of their choice from the market. In June 2022, the Cabinet issued further instructions to clean up the database of FISP beneficiaries. In August 2022, a biometric registration process of all farmers participating in the FISP was completed, with support from the Zambia Growth Opportunities (ZAMGRO) Program for Results (P178342).

30. **Substance of the reforms:** In December 2022, the Cabinet approved the "Action Plan for the Full Migration of FISP to an Electronic Agricultural Input Support System (e-voucher)." The migration commenced in 2023, with the Ministry of Agriculture expecting to roll out e-vouchers in 43 districts in the 2023/24 growing season. The authorities will continue extending e-voucher delivery to the remaining 73 districts in 2024/25 and 2025/26. The December 2022 measure also included issuing a handbook with transparent rules for targeting beneficiaries, network access requirements, and principles for private sector participation.

31. **Expected outcomes:** Implementing the e-voucher system will help to reduce administrative and logistical costs, creating fiscal space for the GRZ to invest in research, extension, and irrigation. By giving farmers flexibility in selecting inputs and crops and making financing available to them, the reforms are expected to engage more private agro-dealers. At the same time, they will encourage farmers to diversify into more climate-resilient crops and move away from maize-centric subsistence production that puts pressure on biodiversity, ultimately creating more jobs and reducing poverty.[12] World Bank financial and technical support through the ZAMGRO program will contribute towards achieving these results.

[11] See Siatwiinda, S.M., Supit, I., van Hove, B. et al. Climate change impacts on rainfed maize yields in Zambia under conventional and optimized crop management. Climatic Change 167, 39 (2021), and Chilambwe, A., Crespo, O., and Chungu, D. Climate change impacts on maize and soybean yields in Zambia. Agronomy Journal 114 (2022):2430–2444.
[12] Mulenga et al., 2020 and Ngoma et al., 2021

Pillar C: Ensuring sustainable access to energy

Policy Area: Reduce access gaps and support the transition to renewables

Prior action #4. To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.

32. **DPF 1 progress and rationale:** Zambia's access to electricity is low, and the sector is highly vulnerable to climate change.[13] Whereas most urban households have access to electricity through the national grid (74.8 percent), 88.1 percent of rural households have no electricity from any source. Gender gaps remain within rural households, with male-headed households almost twice as likely to have access to electricity than female-headed households due to the latter facing constraints such as affordability and low awareness of the benefits of electricity.[14] Furthermore, overreliance on hydropower has left Zambia's electricity supply vulnerable to rainfall vulnerability, with load shedding in early 2023.[15] Financial weaknesses at ZESCO, Zambia's state power utility, have stymied new investments needed to meet objectives of low-cost, climate-resilient, and universal access to electricity. DPF1 supported policy reforms to address ZESCO's revenue challenges by introducing a cost-reflective multi-year tariff with a lifeline tariff to ensure affordable access for the poor and vulnerable. The remaining challenge is charting a least-cost path for investments in both on- and off-grid non-hydro renewable generation that matches the country's long-term energy and economic development needs. Finally, the underrepresentation of women limits socioeconomic development benefits associated with energy services, job opportunities, and investments within the energy sector.

33. **Substance of the reform:** The Cabinet approved the comprehensive 30-year Integrated Resource Plan (IRP) on November 13, 2023. The Cabinet resolution recognizes the plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.[16] It commits the public sector to diversifying investments into non-hydro renewable energy and expanding access to the poor and vulnerable female-headed households through grid and off-grid electrification. The IRP includes the integration of 'complimentary services' such as credit facilities, entrepreneurship, training, the establishment of savings groups, social marketing of electric appliances, and other related initiatives. These actions support vulnerable households in overcoming prohibitive initial connection charges and tariffs and encourage greater adoption of energy services for both productive and domestic purposes, ultimately leading to improved livelihoods. Besides, the IRP provides additional gender-responsive procurement discipline and the development of an equal opportunity employment policy. Finally, this policy measure complements ZESCO's 10-year Strategic Plan to turn around the utility and return it to profitability.

34. **Expected outcomes:** These reforms will reduce Zambia's dependence on hydropower energy sources, increasing resilience against droughts. They also support the objective of making access affordable, reliable, and sustainable and providing modern energy for all, including the most vulnerable and mainly rural women

[13] Only 42.4 percent of Zambians have access to electricity. Luzi et al (2018). Zambia: Beyond Connections. Energy Access Diagnostic Report Based on the Multi-Tier Framework. ESMAP and World Bank.

[14] Whereas 13.3 percent of male-headed households in rural areas have access to electricity (grid or off-grid), only 6.8 percent of female-headed households do. This gap increases to more than four times for off-grid electricity solutions. Republic of Zambia. 2022. Gender Equality Strategy and Action Plan for the Energy Sector.

[15] Hydropower accounts for over 80 percent of installed power generation capacity. ERB 2022-Enery Statistical Bulletin.

[16] The proceeds of this operation do not fund the purchase of solar panels or components.

(Sustainable Development Goal #7). The equal opportunity policy is expected to increase the representation of women in employment, entrepreneurship, and service provision in the non-hydro renewable energy sector. The policy measures support ZESCO's improved creditworthiness, a prerequisite to attracting the private sector to renewable energy generation and off-grid solutions. World Bank technical assistance, investment financing, and a proposed PforR will help attain these outcomes.

Policy Area: Promoting efficiency of fuel supply

Prior action #5. To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.

35. **DPF 1 progress and rationale:** Fuel supply in Zambia was for years characterized by inefficiencies and market distortions that raised costs to consumers while burdening the GRZ's budget. Since 2021, the GRZ has been withdrawing the public sector from importing and supplying petroleum products. DPF1 supported introducing a system of monthly adjustments of pump prices that eliminated direct subsidies. Meanwhile, the GRZ has closed the state-owned Indeni petroleum refinery and converted the TAZAMA pipeline to transport low-sulfur diesel instead of crude. The cost of transporting diesel through the pipeline is one quarter that of transporting fuel by truck and less polluting. However, unless oil marketing companies have competitive access to the pipeline, these cost savings will not be passed along to consumers.

36. **Substance of the reform:** The Ministry of Energy approved Statutory Instrument 41 on September 15, 2023, which establishes an open-access framework for oil marketing companies to use the pipeline. The Energy Regulation Board (ERB) will regulate the process to prevent anti-competitive behavior. This action completes GRZ's withdrawal from the bulk procurement of fuel and other direct interventions in the fuel supply to the Zambian market.

37. **Expected outcomes:** Reforms in the petroleum subsector will help reduce the government's liabilities, including the arrears to fuel suppliers, and ensure pump prices become more responsive to market dynamics. The GRZ has moved beyond implementing a transparent bulk procurement system for all government-procured petroleum products (envisaged in DPF1) and fully withdrawn from bulk fuel procurements altogether. This acceleration in fuel reforms will reduce the state's exposure to oil marketing companies, containing fuel arrears or generating fiscal space to reduce them. Because repurposing the pipeline to deliver diesel instead of crude does not increase the supply of fuel to the Zambian market (the pipeline has not expanded its capacity) but rather shifts fuel supply away from road transport, the measure is expected to reduce Zambia's GHG emissions.

Pillar D: Enhancing access to finance and private sector development

Policy Area: Enhancing access to green finance

Prior action #6. To align financial services with the Recipient's Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.

38. **DPF 1 progress and rationale:** DPF1 supported the approval of the revised Bank of Zambia Act, which enhanced access to finance and private sector development through increased financial sector stability and strengthened the BoZ's operational independence. However, information problems continue to limit green finance: firms and investors find it difficult to transact unless there is clarity regarding what constitutes a "green" investment and transparent information about the results these investments seek to achieve. The Securities (Green Bonds) Guidelines, issued in 2020 under the Securities Act 2016, address information problems facing bond investors, but challenges remain in other market segments. Financial institutions in Zambia cannot assess climate-related risks accurately or identify opportunities to expand green finance. Inconsistencies in data reporting and standardization across sectors have contributed to this challenge.[17] Inadequate access to finance is the most cited business environment obstacle for Zambian firms across all sizes, a greater challenge for women-led SMEs.[18] In addition, BoZ cannot adequately manage risks to financial stability posed by climate change unless financial institutions have a common framework for identifying their exposure and reporting risks to supervisors.

39. **Substance of the reform:** BoZ approved a Green Finance Framework on September 26, 2023, and issued the Banking and Financial Services (Green Loans) Guidelines on October 6, 2023. The Green Finance Framework integrates climate risk and environmental risk assessments into BoZ's supervision of the financial sector and requires financial institutions to disclose climate-related risks to avoid greenwashing. The Green Loans Guidelines provide the legal framework for banks to follow when issuing green loans. This framework includes not only conventional concerns of governance, risk management, loan evaluation, and disclosure, but also provides the criteria for classifying loans as "green."[19] Moreover, the guidelines set rules to adequately monitor and standardize risk evaluations and data reporting across sectors.

40. **Expected outcomes:** The reforms align Zambia's financial services with the 8NDP, environmental and climate change policies, NDCs, and GRZ's green growth priorities. They are expected to increase funds available for investments that reduce GHG emissions and increase access to finance for climate-vulnerable sectors, including SMEs and underserved segments. Further, these reforms will support Zambia's financial sector's resilience to climate change and its long-term stability through more robust risk assessments. World

[17] In May 2023, a rapid and indicative assessment of the financial institutions in Zambia, in collaboration with the Bankers' association of Zambia, was undertaken. World Bank (2023). Zambia: Financing a Green Future.

[18] For example, in Zambia, 28 percent of men-led SMEs have borrowed from a bank or microfinance institutions, contrasting to 23 percent of women-led SMEs. World Bank (2021). W-SME Survey Report—Access to Finance and Capacity Building of Women-led Small and Medium Enterprises in Zambia.

[19] The Green Loan Guidelines specify that loan proceeds must be ringfenced for green projects, as defined in the eligibility criteria (Schedule I). "Green" projects are officially defined as "projects which aim to improve the environment, reduce pollution, reduce GHG emissions, enhance energy efficiency, and adapt to climate change." Eligible projects that directly contribute to climate mitigation include, for example, projects related to renewable energy (e.g., solar, wind, geothermal power), energy efficiency (e.g., energy-efficient equipment and facilities, smart grids), pollution prevention and control (e.g., waste reduction/prevention) and clean transport projects (e.g., low emission electric vehicles). Eligible projects that contribute to climate adaptation include projects that reinforce disaster prevention functions of infrastructure projects (e.g., railways, airports, roads) to address the impacts of climate-related shocks, such as droughts and floods. Adaptation projects also support sustainable water resource management that addresses climate change's impacts (e.g., droughts, floods) on the water sector (e.g., projects that develop and improve flood prevention facilities and projects that conserve the water circulation cycle). Eligible adaptation projects also include climate observation, early warning systems, and weather index insurance. In addition, projects that support broader environmental benefits include those related to biodiversity conservation (e.g., projects to control non-native species). These projects also indirectly contribute to climate adaptation because climate change impacts (including floods, droughts, and temperature variations) contribute to habitat loss, which causes a significant threat to biodiversity.

Bank technical assistance under the Climate Support Facility Trust Fund is expected to support, among others, data collection on women-owned businesses' access to green finance.

Policy Area: Enhancing private sector development

Prior action #7. To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.

41. **DPF 1 progress and rationale:** DPF1 supported approval of the revised Zambia Development Agency Act and Zambia Investment, Trade and Business Development (ITBD) Act, which together improved the legal framework governing Zambia's investment environment. Building on these reforms, the authorities have developed a model bilateral investment treaty that aims to implement the Investment Protocol of the AfCFTA. Some regulatory aspects need addressing, however, including consolidating investment entry rules. The ITBD Act mentions four sectors in which FDI is prohibited. However, there are investment entry restrictions, such as caps on ownership, dispersed across various other legal instruments. This dispersion, typically addressed through a consolidated negative list approach, undermines the commitments to transparency and an improved investment climate that Zambia made under the WTO's Investment Facilitation Agreement and the Investment Protocol of the AfCFTA.

42. **Substance of the reform:** In November 2023, the Zambia Development Agency issued instructions on foreign investments that clarify Zambia's openness to FDI by presenting a negative list of the subset of sectors and activities in which FDI is prohibited or subject to restrictions.[20] The measure consolidates rules on investment entry dispersed across laws and regulations. The publication will also allow GRZ to review FDI entry rules periodically and further liberalize sectors and activities gradually. In addition, the authorities adopted another ITBD regulation identifying priority sectors for investment. In alignment with its NDC and 8NDP priorities, the regulation prioritizes manufacturing in critical mineral value chains and energy and water development, among others.

43. **Expected outcomes:** The reforms will allow investors to know FDI entry rules upfront, improving transparency and reducing opportunities for excessive discretion. They will align Zambia with the transparency obligations under WTO's Investment Facilitation Agreement and the Investment Protocol of the AfCFTA, both of which Zambia is a member. This alignment will enable Zambia's competitiveness to attract, retain and expand FDI. The improved investment entry framework and greater transparency will boost investor confidence and lead to greater investments, including energy transition minerals.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

44. **The proposed DPF supports the Country Partnership Framework (CPF) for Zambia for FY19–24, discussed by the Board on February 14, 2019 (Report No. 128467), which was informed by the 2018 Systematic Country Diagnostic.**[21] This proposed operation is a core part of the CPF, and the DPF contributes to critical areas of the CPF. Reforms in Pillar A contribute to achieving CPF Objective 3.1 (Fiscal and financial

[20] These restrictions include equity caps, approvals, minimum investments, and others.

[21] The 2023 Performance and Learning Review (Report No.181836-ZM) extended the CPF for one year to FY24, and a new CPF is planned to be delivered in FY25.

fitness increase). Reforms in Pillar B contribute to achieving CPF Objective 1.1 (Agro-food sector becomes less maize-centric, more productive, and better connected to domestic and external markets). Reforms in Pillar C contribute to achieving CPF Objective 1.3 (Access to and quality of resilient infrastructure services increases) and to the Eastern and Southern Africa Region priorities, including universal access to electricity. Reforms in Pillar C contribute to achieving CPF Objective 3.1 and Objective 3.2 (Trade and infrastructure for economic integration increase). Both the CPF and the proposed operation support wider IDA goals. The DPF also aligns with other analytical documents in Annex 1 Table 5.

45. **This DPF series mutually reinforces World Bank financing and technical assistance to support Zambia's efforts to restore fiscal sustainability and promote inclusive, private-sector-led economic growth.** World Bank financing for social protection, health, and education operations strengthens the GRZ's ability to mitigate social risks from fiscal consolidation and subsidy reform. It allows the authorities to invest the resulting fiscal savings in human capital development as the GRZ emerges from debt distress and implements its broader policy reform program.[22]

46. **The proposed operation complements many other World Bank supported projects and analytics.** World Bank investment and policy-based financing and related technical assistance support the implementation of Pillar A's reforms to improve fiscal management.[23] Pillar B of the DPF series supports changes to policies on agricultural subsidies while, through a PforR and IPF, the World Bank helps the GRZ reallocate public spending from subsidies to irrigation, extension, and other activities that promote adaptation to climate change and increase farm productivity.[24] Reforms in Pillar C to ensure affordable access to electricity complement World Bank financing provided through the Electricity Service Access Project (P162760), while policies aimed at restoring ZESCO's financial viability lay the groundwork for a proposed regional IPF and power sector reform PforR. Operations approved in FY24 are financing investments in infrastructure and institutional capacity that will help the policy reforms supported in Pillar D pay off with jobs and inclusive, private-sector-led growth.[25]

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

47. **This operation supports the 8NDP implementation, which was prepared through an extensive consultative process.** MOFNP led a cross-government team to formulate the 8NDP, supervised by a steering committee comprised of permanent secretaries and representatives from provinces and government spending agencies. Extensive consultations were organized nationwide with stakeholder participation from sector ministries, civil society, academia, private sector representatives, development partners, and the media. For the first time, the ward level was also involved in formulating the NDP.

[22] These include the Scaling-up Shock Responsive Social Protection Project (P179095), Emergency Health Service Delivery Project (P176214), Zambia Education Enhancement Project Second Additional Financing (P180401), and Second Additional Financing for the Girls Education and Women's Empowerment Project (P175955).

[23] These include the Zambia Devolution Support Program for Results (P178492), Zambia: Strengthening Public Procurement System for Economic Development (P178539) grant, the Strengthening Cash Management and Local Revenue Policies and Practices (P179796) ASA, and technical assistance on PPPs and debt management.

[24] Zambia Growth Opportunities PforR (P178372) and Irrigation Development Support Project—Additional Financing (P172140).

[25] The Green, Resilient and Transformational Tourism Development Project (P180337) and Zambia Agribusiness and Trade Project-II (P179507) were approved in June 2023. Pillar D also complements technical assistance. In addition, several ASA activities provide technical assistance, including Supporting Women-led SMEs in Zambia: Access to Finance and Capacity Building Pilot (P168398), which closed in FY23, and the ongoing Zambia Financial Sector Development (P179395) and Zambia Investment Enabling Environment in Africa, Caribbean, and Pacific Countries (P176090).

48. **Consultations.** The Zambian authorities have actively engaged domestic stakeholders on the reforms supported under this programmatic series. Any decisions taken to the Cabinet must undergo stakeholder consultation. Most notably, as they directly change the prices consumers pay, all of ERB's decisions on electricity tariffs and fuel pricing and supply have been informed by extensive consultations with a broad spectrum of stakeholders.[26] Similarly, stakeholder consultations informed the draft legislation, GRZ regulations, BoZ directives, and other reform measures supported by the proposed operation. MOFNP has been engaging the public on debt restructuring negotiations and the medium-term fiscal stance.[27] The president, cabinet ministers, and senior GRZ officials have also been engaging the public on the broader reform program supported by the World Bank, IMF, and other development partners.

49. **Collaboration with other development partners.** The proposed operation is part of a program of coordinated reform dialogue with other bilateral and multilateral partners. The World Bank is an active member of the Cooperating Partners Group, comprising bilateral and multilateral development partners. The group provides a forum for collaboration among Zambia's development partners. The World Bank has collaborated closely with members of the group on reforms supported by the DPF series, such as with GIZ on debt management, with FCDO on fuel sector reform, and with the IMF (Section 2.3).

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

50. **DPF-supported reforms are expected to underpin sustainable poverty reduction and reduce inequality in the medium term.** Debt and fiscal sustainability measures minimize the risks of another macroeconomic crisis, which is amongst the most important causes of large increases in monetary poverty worldwide and long-term damages to the human capital of the poor (PA#1).[28] Enhanced public investment and increased participation of private investment through PPPs are expected to help close critical infrastructure gaps that disproportionally hurt the poor (PA#2). Improved market performance and higher agricultural productivity are necessary to reduce poverty in rural areas (PA#3). Zambia has the fifth-highest coverage gap in electricity in the world.[29] Given the high correlation between poverty and connection gaps, expanding access through the grid and off-grid electrification is expected to directly benefit the poor and vulnerable, including women, closing inequalities (PA#4). By laying the foundations for instruments that finance climate-resilient investments, the green loan guidelines can reduce vulnerability and improve financial inclusion, particularly in underserved segments (PA#6). Higher FDI can generate more employment opportunities, particularly in the formal sector (PA#7). At the same time, moving away from subsidies has seen increased social spending. Between 2020 and 2022, the caseload of the Social Cash Transfer program increased by 57 percent, reaching 973,23 households in 2022. By the end of 2023, it is projected to reach 1.3 million.

51. **The FISP migration to e-vouchers will likely have positive social gains in the short term** (PA#3)**.** Past evaluations of the program have found problems with the delayed provision of inputs and leakages to

[26] For example, ERB approved ZESCO's multi-year tariff rate request in April 2023 only after multi-year stakeholder consultations that included public debates of green and white papers on proposed rules governing the multi-year tariff framework and a period of public comment and hearings on ZESCO's rate request itself.

[27] See, for example, the statements MOFNP issued after the June 2023 agreement with official creditors. Several months prior to drafting the annual budget, MOFNP publishes a green paper updating the proposed medium-term budget plan.

[28] Lustig, Nora (2020). Crises and the poor: Socially responsible macroeconomics. Inter-American Development Bank, Sustainable Development Department Technical Paper Series.

[29] World Bank. Multidimensional Poverty Measure portal.

ineligible recipients, often at the expense of reaching smallholders.[30] E-vouchers enhance targeting and monitoring, ensuring that benefits reach the intended beneficiaries. Besides, the new system is expected to ensure timely availability of inputs before the planting season. The roll-out is planned in stages and will only advance in areas with adequate network connectivity. Beneficiaries located in remote areas will receive more in monetary value than beneficiaries located in urban areas. The new system is expected to increase transparency, improve targeting compliance, and support crop diversification, potentially benefiting income and food security in the medium term.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

52. **Zambia has 33 pieces of legislation related to environmental management and sustainability.** The Environmental Management Act No. 12 of 2011 and the Environmental Management (Licensing) Regulations of 2013 are the principal laws. Multiple environmental legislation and statutory institutions present a challenge to regulating and enforcement bodies due to weak enforcement and monitoring capacities. However, ongoing World Bank-financed projects aim to enhance Zambia's Environmental Management Agency (ZEMA) capacity by training environmental inspectors, purchasing monitoring instruments, and constructing a new laboratory to improve environmental pollution monitoring. The authorities are strengthening the Environmental Management Act by: (i) revising ZEMA's functions; (ii) registering pesticides or toxic substances, and (iii) amending the provision on penalties.

53. **Several reforms under this operation are expected to have considerable positive impacts on the environment, forests, and other natural resources; the remaining reforms will likely have no significant positive or negative impact.** Financial sector reforms are expected to unlock Zambian firms' access to financing to invest in green projects and contribute to achieving Zambia's NDC (PA#6), while agriculture reforms aim to increase farmers' ability to diversify into crops that are more resilient to drought and rising temperatures (PA#3). The energy sector reforms will increase access to affordable, reliable, and sustainable energy sources, which will likely reduce vulnerable households' reliance on biomass energy (PA#4). Reforms that integrate PPPs into MOFNP's public investment management systems will ensure that environmental risks are considered before proposed PPPs enter the public investment program (PA#2). Reforms that reduce subsidies and direct state intervention and increase the efficiency of government spending will create fiscal space for the GRZ to invest in long-term climate resilience (PA#3 and PA#5).

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

54. **The authorities are strengthening fiduciary, procurement, and budgeting systems with project support and technical assistance from the World Bank.** Tax administration, budgeting, treasury, and cash management reforms are underway and have yielded progress. Zambia ranks highly in PFM areas related to the transparency of public finances, policy-based fiscal strategy and budgeting, and external scrutiny and audit; the 2016 PEFA shows that performance indicators for these areas improved since the previous PEFA in 2012.

55. **GRZ has embarked on several procurement reforms.** The reforms culminated in repealing the Public Procurement Act No. 12 of 2008 and Public Procurement Regulations, 2011, and replacing them with the Procurement Act No. 8 of 2020 and the Public Procurement Regulations 2022. Further, the reforms mandate conducting public procurement through an electronic government procurement (e-GP) system, which is used successfully. Zambia ranks highly in PFM areas related to the transparency of public finances, policy-based

[30] World Bank, 2021. Zambia's Farmer Input Support Program and Recommendations for Re-designing the Program.

fiscal strategy and budgeting, and external scrutiny and audit; the 2016 PEFA shows that performance indicators for these areas improved since the previous PEFA in 2012.

56. **MOFNP timely publishes the annual budget on its website.**[31] It publishes a green paper summarizing the proposed medium-term budget plan and annual budget several months before submitting the annual budget to Parliament. The authorities also issue a white paper on the medium-term budget plan after Parliament has approved the annual budget.

57. **However, performance has slowed in some areas.** These include internal controls and financial reporting, irregularities, and infrequency in reconciling bank accounts outside the Treasury Single Account. The GRZ's ongoing PFM reforms, supported by the World Bank (including this DPF series) and other development partners, are addressing these challenges, especially those that have led to the accumulation of arrears.

58. **BoZ is implementing recommendations in the IMF's 2022 safeguards assessment.**[32] The BoZ Act of 2022 (DPF1 prior action) strengthened BoZ's governance arrangements and autonomy. BoZ is taking steps to enhance transparency and accountability mechanisms through stronger oversight and audit quality.

59. **The proposed grant will follow IDA's standard disbursement procedures for DPFs.** The proceeds of the grant will be deposited by IDA in a U.S. dollar account designated by the GRZ at BoZ and forming part of the official foreign exchange reserves of Zambia. Within two working days, the BoZ will credit proceeds to the consolidated account maintained on behalf of the GRZ for budget execution. Any conversion from foreign currency to local currency will be based on the prevailing exchange rate on the date that the funds are credited to the budget management system. BoZ will not impose any charges or commissions on the GRZ for processing the proceeds of the credit.

60. **The administration of the grant will be the responsibility of MOFNP.** The GRZ will: (a) confirm to IDA within 30 days that proceeds from the IDA grant have been credited in the GRZ budget management system; (b) provide evidence that the equivalent of the credit proceeds was recorded as financing the GRZ budget; (c) provide a statement of receipts and disbursement of the designated account; and (d) ensure that the equivalent of the grant proceeds is subject to effective controls. The grant's proceeds will support GRZ's budgetary expenditures, which the Office of the Auditor General audits. IDA will have access to these audit reports.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

61. **MOFNP will coordinate monitoring and evaluation for this proposed DPF.** The institutional and policy reforms supported by the programmatic DPF series fall under the purview of the Ministry of Agriculture, MCTI, Ministry of Energy, MOFNP, Ministry of Justice, Ministry of Tourism, BoZ, ERB, and the Public Procurement and Regulatory Agency. MOFNP has chaired the multi-sector coordinating committee established to oversee the preparation of the operation. This committee will remain in place during the program's implementation and monitor results indicators and evaluation activities.

62. **The results framework presented in Annex 1 will be used as a monitoring tool by the government and the World Bank.** Data availability and quality are appropriate to monitor progress towards achieving the results indicators. MOFNP will furnish information to the World Bank to monitor outcomes in the results framework. Most results indicators are based on routinely published information by the government. For

[31] Annual budgets since 2007 are available at <https://www.mofnp.gov.zm/?page_id=4096>.
[32] See IMF, 2023 Article IV Consultation, First Review under the Extended Credit Facility Arrangement, and Financing Assurances Review, IMF Country Report No. 23/256, July 2023.

those that are not, MOFNP will liaise with focal points in the other ministries involved to provide such information at a frequency and in a format satisfactory to the World Bank.

63. **Grievance redress**. Communities and individuals who believe they are adversely affected by the policies or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Project-affected communities and individuals may submit complaints to the Bank's independent Accountability Mechanism (AM). For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/GRS*. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit *https://accountability.worldbank.org*.

6. SUMMARY OF RISKS AND MITIGATION

64. **Risks to achieving the program's objectives have moderated since the DPF1; the engagement still faces substantial risk.** The recent agreement on Zambia's debt treatment to restore debt sustainability and bolster macroeconomic stability has contributed to this outlook. However, the three main sources of risk described below are inter-connected and could impede the achievement of the proposed operation's results.

65. **Political and governance risk is substantial.** The GRZ continues to demonstrate a strong commitment to politically challenging economic reforms. Nevertheless, resistance from vested interests or reform fatigue could slow the implementation of the GRZ's reform program or weaken its commitment to fiscal restraint. As in many countries, changes to agricultural subsidies or fuel supply policies can generate a popular backlash. Increased transparency—of market mechanisms or in public procurement, debt, and financial management—narrows the scope for collusion, corruption, or rent-seeking. The nearing general election could slow the pace of reforms. The extensive consultations that the GRZ conducts mitigate these risks. GRZ has built public awareness of cost efficiency by presenting analytical work to public gatherings and parliamentary committees. Reallocating efficiency gains for spending on social programs (e.g., provision of education bursaries, recruitment of teachers and health workers, and transfers to local communities) also mitigates risks. With financing and technical assistance from the World Bank, GRZ is strengthening its social protection systems and other social programs aimed at helping the poor and vulnerable.

66. **Macroeconomic risk is high.** The official creditor's agreement in October 2023 to restructure debt and the GRZ's additional track record of fiscal constraint ease macroeconomic risks. However, the outlook for achieving the program's objectives remains vulnerable to macroeconomic risk. Shocks to Zambia's GDP, balance of payments, price volatility in global commodities and financial markets, or adverse weather conditions could weaken GRZ's fiscal stance or delay agriculture and energy sector reforms. BoZ's newly strengthened autonomy and mandate mitigate macroeconomic risks to the PDOs, as do the commitments by multilateral development banks to provide net financial flows in highly concessional terms to support Zambia's debt restructuring. Agreeing and signing debt reduction MOUs with commercial creditors would significantly reduce uncertainty about Zambia's macroeconomic outlook.

67. **Some existing institutional arrangements require strengthening and represent a substantial risk.** Low capacity in some government functions may challenge the achievement of reform objectives, such as an improved business-enabling environment or increased use of PPPs. The GRZ is taking steps to build capacity in these areas, including with support from World Bank financed operations and technical assistance.

Table 4: Summary Risk Ratings[33]

33

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

<table>
<tr><th></th><th colspan="2">Prior actions</th><th colspan="3">Results</th></tr>
<tr><th></th><th>DPF 1 Prior Actions</th><th>DPF2 Prior Actions</th><th>Indicator Name</th><th>Baseline</th><th>Target</th></tr>
<tr><td colspan="6">Pillar A: Restoring fiscal and debt sustainability</td></tr>
<tr><td rowspan="2">Strengthen debt accountability and transparency.</td><td>Prior Action #1. To strengthen fiscal and debt management, the Recipient, through its Parliament, has enacted the Public Debt Management Act, which aims to strengthen debt management, accountability, and transparency.</td><td rowspan="2">Prior action #1. To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.</td><td>RI 1. Percentage of public and publicly guaranteed (PPG) loans approved by Parliament</td><td>N/A</td><td>100 percent [2023–25]</td></tr>
<tr><td>Second Tranche Release Condition #1. To enhance transparency of debt information, the Recipient, through its Ministry of Finance, has published for the first time on its website the end-September 2022 quarterly Debt Statistical Bulletin in accordance with the Public Debt Management Act which mandates such publication.</td><td>RI 2. Lag between a quarter’s end and publication of the quarterly debt bulletin</td><td>128 days on average [2021 bulletins]</td><td>60 days on average [2023–2025 bulletins]</td></tr>
</table>

Improve fiscal governance and budget credibility	**Prior Action #2.** To improve budget credibility and expenditure control, the Recipient, through its Ministry of Finance and National Planning has (a) required that Ministries, Provinces and Spending Agencies ("MPSAs") submit annual cashflow plans for 2022, and (b) issued quarterly cashflow ceilings to MPSAs for 2022, to enable strategic allocation of resources and service delivery going forward.	**Prior Action #2:** To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued Cabinet Office Circular minute no.13 of 2023, which requires the appraisal of all major investment projects developed by Ministries, Provinces and Spending Agencies before their inclusion in inter alia the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill, which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation.	RI 3. The variance between actual and planned primary spending in the budget (commitment basis)	27 percent [2019]	Below 10 percent [2025]
Pillar B: Increasing farmer productivity and access to agricultural markets					
Remove input market distortions that impede productivity	**Prior Action #3.** To increase farmer productivity and access to agricultural markets, the Recipient, through its Cabinet, has approved full migration to a cost-efficient electronic based agro-input support system under the Farmer Input Support Program ("FISP"), in order to introduce an improved delivery mechanism and more diversified production support for small-holder farmers.	**Prior Action #3.** To increase farmer productivity, the Recipient, through its Cabinet, has approved the 'Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System', which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.	RI 4. Share of FISP beneficiaries that obtain e-vouchers	0 [2021]	70 percent [2025]
Remove output market distortions that impede market access	**Prior Action #4.** To enhance access to agricultural product markets, the Recipient, through its Parliament, has enacted the Customs and Excise (Amendment) Act, 2021, which suspends the export duty on maize.		RI 5. Maize exports as a share of non-traditional exports	2 percent [2021]	5 percent [2025]

Pillar C: Ensuring sustainable access to energy					
Reduce access gaps and support the transition to renewables	**Prior Action #5.** To ensure sustainable access to energy, the Recipient, through its Cabinet has approved principles for the electricity tariff-setting methodology, to improve fiscal sustainability of the power utility ZESCO.	**Prior action #4.** To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.	RI 6. Percentage of rural households with access to electricity	11.9 percent [2018]	44.5 percent [2025]
	Second Tranche Release Condition #2. To protect vulnerable households from the economic impact of tariff increases, the Recipient, through its Cabinet, has endorsed and published a lifeline tariff band at an affordable level as part of a multi-year electricity tariff framework.		- Of which, rural female-headed households	6.8 percent [2018]	12.0 percent [2025]
Promoting efficiency of fuel supply	**Prior Action #6.** To improve the efficiency of the petroleum supply chain, the Recipient, through its Cabinet, has approved automatic monthly pump price adjustments to remove explicit subsidies to oil marketing companies.	**Prior Action #5.** To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.	RI 7. Fuel arrears to oil marketing companies (OMCs)	US$597 million stock [2021]	No new arrears [2024–2025]

Pillar D: Enhancing access to finance and private sector development					
Enhancing access to green finance	**Prior Action #7.** To enhance access to finance and private sector development, the Recipient, through its Parliament, has enacted the Bank of Zambia Act, 2022, which aims to enhance financial stability through the establishment of a Monetary Policy Committee, the creation of a Financial Stability Committee and the strengthening of Bank of Zambia's operational independence	**Prior Action #6.** To align financial services with the Recipient's Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.	RI 8. Value of private green loans for climate change mitigation and adaptation to SMEs[34] - Of which, women-owned SMEs	None [2023] None [2023]	US$200 million [2025] US$10 million [2025]
Enhancing private sector development	**Prior Action #9.** To enhance private sector development, the Recipient through its Cabinet has submitted to Parliament the Zambia Development Agency Amendment Bill and Investment, Trade, and Business Development Amendment Bill to improve market access and investor participation in Zambia.	**Prior Action #7.** To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.	RI 9. Number of investments materialized as a proportion of investor inquiries	3 percent [2021]	6 percent [2025]

[34] The Green Loan Guidelines define "green" projects as contributing to climate mitigation and adaptation goals and broader environmental goals (e.g., biodiversity conservation and pollution control). Schedule 6 of the Guidelines also indicates that green loans can follow and track different indicators. Some indicators directly relate to climate mitigation and adaptation, while others are broader (e.g., ecosystem conservation area). For RI8, the climate change mitigation and adaptation definition from the NDC, National Adaptation Plan, 8th NDP, and Green Loans Guidelines Schedule will be used.

Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar A: Restoring fiscal and debt sustainability	
Prior Action #1. To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.	- World Bank-IMF Debt Sustainability Analysis, July 2023
Prior action #2. To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued a circular which requires the appraisal of that all major investment projects developed by Ministries, Provinces and Spending Agencies before their inclusion in the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation.	- Zambia- Public Investment Management Assessment. IMF Technical assistance Report. April 2017 - Ongoing Zambia Public Expenditure Review (P174910) - PPP bill review, 2023
Operation Pillar B: Increasing farmer productivity and access to agricultural markets	
Prior action #3. To increase farmer productivity, the Recipient, through its Cabinet, has approved the ‘Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System’, which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.	- World Bank (2021) Zambia’s FISP and Recommendations for Re-designing the Program. Discussion Note - ZAMGRO PforR (P178372), Technical assessment
Operation Pillar C: Ensuring sustainable access to energy	
Prior action #4. To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.	- Programmatic Advisory Services and Analytics (ASA) for the Energy Sector in Zambia (P170796)
Prior action #5. To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.	- Programmatic Advisory Services and Analytics (ASA) for the Energy Sector in Zambia (P170796)
Operation Pillar D: Enhancing access to finance and private sector development	
Prior action #6. To align financial services with the Recipient’s Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.	- World Bank (2023). Zambia: Financing a Green Future - World Bank Group (2021) Access to Finance and Capacity Building of Women-led Small and Medium Enterprises in Zambia
Prior action #7. To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.	- Edward J. Balistreri and Zoryana Olekseyuk, 'Economic impacts of investment facilitation', Center for Agricultural and Rural Development, Iowa State University, February 2021. - 2022. “Making the Most of the AfCFTA: Leveraging Trade and FDI to Boost Growth and Reduce Poverty.” World Bank. - World Bank Handbook on Investment Facilitation Agreement (Forthcoming)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes the 2023 Article IV Consultation with Zambia and Completes the First Review Under the Extended Credit Facility Arrangement

July 13, 2023

- The IMF Executive Board completed the first review under the 38-month Extended Credit Facility (ECF) with Zambia, providing the country with access to SDR 139.88 million (about US$ 189 million).
- Zambia's performance under the program remains strong. All quantitative performance criteria for the first review and nine structural benchmarks have been met, with only marginal delays in the remaining two.
- The authorities have taken bold steps to restore fiscal sustainability, raise social spending, and strengthen economic governance. This ambitious reform agenda aims to reverse the impact of past economic mismanagement and shocks, such as COVID-19, and raise growth, create jobs, and reduce poverty.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the First review of the 38-month *Extended Credit Facility* Arrangement and the 2023 Article IV Consultation *[1]* with Zambia. The completion of the first ECF review allows for an immediate disbursement of SDR 139.88 million (about US$ 189 million), bringing Zambia's total disbursements under the arrangement to about US$ 374 million.

Zambia's ECF Arrangement is for a total of SDR 978.2 million (100 percent of quota) or about US$1.3 billion at the time of program approval on August 31, 2022 (see *Press Release 22/297*). It seeks to support Zambia's homegrown economic reform plan that seeks to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth.

On June 22, 2023, the Zambian authorities reached an *agreement with the Official Creditor Committee (OCC)* on a debt treatment that is in line with Fund program parameters. This agreement puts Zambia on the path to debt sustainability, provided the financing assurances necessary for the Executive Board review to be completed, and also clears the way for the authorities to focus on the growth-enhancing reforms that will create jobs and prosperity for Zambia.

Zambia's reform efforts since the inception of the ECF have been commendable. All quantitative performance criteria and nine of eleven structural benchmarks for the first review have been met. The target date for submission of a revised Public-Private Partnership Bill has been reset to end-July to allow stakeholder feedback to be incorporated, and the target date for implementation of the IFMIS commitment control module has been reset to end-August to allow sufficient time for validation. Decisive steps have been taken to cut inefficient public spending and create space for increased social spending and investment in human capital—including freeing the resources to provide free education for all and to hire 41,000 additional health and education workers. Public procurement regulations are being implemented to ensure value-for-money and increased transparency of public spending. And steps are being taken to improve the business environment and attract much-needed private investment to Zambia.

The Executive Board also concluded the 2023 Article IV consultation with Zambia.

Having weathered a number of external shocks over the past couple of years, the Zambian economy is beginning to strengthen, and its post-COVID GDP-rebound is expected to continue. Despite some projected moderation in 2023, growth is expected to accelerate in 2024 and settle at around 5 percent over the medium term. Nonetheless, with poverty and inequality amongst the highest in the world and Zambia's high exposure to climate shocks, significant challenges remain. To create a more conducive environment for private sector development and attract much needed private investment, strengthening economic governance and addressing corruption vulnerabilities should remain a central aspect of the government's reforms, including implementing the recommendations of the *IMF's Diagnostic Report on Governance and Corruption* , published in December 2022. Sustained efforts are also essential to maintain fiscal credibility while also creating sufficient space for social, development, and climate spending.

Following the Executive Board discussion on Zambia, Ms. Kristalina Georgieva, Managing Director, issued the following statement:

"The authorities have made commendable efforts over the past two years to stabilize the economy, despite the continuation of significant external shocks. Going forward, it will be important to sustain their commitment to the strong policies needed to safeguard macroeconomic stability, restore debt sustainability, and promote durable and inclusive growth.

"Performance under the ECF-supported program has been robust, including a significant fiscal adjustment in 2022 and measures to restore ZESCO's financial viability. Going forward, further fiscal adjustment focused on revenue mobilization and supported by continued fiscal reforms, including in PFM, revenue administration, and debt management, will be essential. The increased level of social spending should be sustained to protect the most vulnerable, and further efforts are needed to mitigate fiscal risks, including strengthening the framework for Public-Private Partnerships.

"Zambia's agreement with the Official Creditor Committee (OCC) under the G20 Common Framework on a debt treatment consistent with program parameters is very welcome. Swift finalization and signature of the Memorandum of Understanding with the OCC will be important. Timely implementation of this agreement, together with agreements with private creditors on comparable terms, should restore Zambia's debt sustainability over the medium term.

"The Bank of Zambia should remain alert to inflationary pressures and continue reforms to preserve financial stability and enhance inclusion, even as the financial sector landscape evolves.

"Strengthening economic governance and addressing corruption vulnerabilities should remain a central aspect of reform, and the authorities' commitment to implementing the recommendations of the IMF's Diagnostic Report on Governance and Corruption, including to enhance transparency and robust implementation of public procurement regulations, is commendable. These reforms, combined with the authorities' climate-smart growth policy, will provide a more conducive environment for private sector investment and growth."

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

IMF Communications Department
MEDIA RELATIONS
PRESS OFFICER: NICO MOMBRIAL
PHONE: +1 202 623-7100**EMAIL:** MEDIA@IMF.ORG

Table 1. Zambia: Selected Economic Indicators, 2019–26

	2019	2020	2021	2022	2023	2024	2025	2026
						Projections		
National accounts and prices								
GDP growth at constant prices	1.4	-2.8	4.6	4.7	3.6	4.3	4.5	4.7
Agriculture	7.7	17.2	6.9	-2.2	-0.2	3.8	4.1	4.2
Mining	-5.1	8.0	-6.3	-4.4	4.9	9.0	8.7	7.4
Non-mining, non-agricultural	1.8	-5.6	5.9	6.5	3.7	3.8	4.0	4.4
GDP deflator	7.6	13.7	27.6	8.6	12.1	9.9	7.3	6.9
GDP at market prices (millions of kwacha)	300,449	332,223	443,362	504,477	585,449	671,332	752,580	841,746
Consumer prices								
Consumer prices (average)	9.2	15.7	22.0	11.0	10.6	9.6	7.5	7.0
Consumer prices (end of period)	11.7	19.2	16.4	9.9	11.4	7.9	7.0	7.0
External sector								
Terms of trade (deterioration -)	-6.4	13.9	22.1	-6.8	5.8	-0.2	-0.5	-0.7
Average exchange rate (kwacha per U.S. dollar)	12.9	18.3	20.0	17.0	...	...	...	...
(percentage change; depreciation +)	23.3	42.3	9.1	-15.3	...	...	...	...
End-of-period exchange rate (kwacha per U.S. dollar)	14.1	21.2	16.7	18.1	...	...	...	...
Current account balance	0.4	10.6	9.7	3.6	4.7	7.3	8.6	8.6
Gross international reserves (months of prospective imports)	3.0	1.9	3.4	3.5	3.5	4.2	5.0	5.0
Money and credit								
Reserve money (end of period)	25.8	57.0	8.5	12.0	17.2	12.5	11.0	11.8
Broad money (M3)	12.5	46.4	3.7	24.5	17.2	12.5	11.0	11.8
Credit to the private sector (percent of GDP)	12.5	12.3	8.5	10.0	15.2	16.7	18.1	21.1
National accounts								
Gross investment	39.3	32.3	28.5	31.9	31.6	31.8	31.8	32.3
Government	9.4	7.8	3.9	3.3	3.1	3.2	3.2	3.7
Private	29.8	24.5	24.5	28.5	28.5	28.5	28.5	28.5
National savings	39.7	42.9	38.1	35.5	36.4	39.1	40.3	40.9
Central government budget								
Revenue	20.	20.3	22.3	20.0	21.2	22.0	22.1	21.8
Taxes	16.1	15.7	16.0	15.8	17.5	17.8	17.9	17.9
Grants	0.3	0.5	0.6	0.4	0.4	0.7	0.6	0.4
Other revenue	4.0	4.1	5.7	3.8	3.4	3.5	3.5	3.5
Expenditure	29.8	34.1	30.4	27.6	26.2	26.3	25.4	26.0
Expense	20.4	26.3	26.5	24.3	23.1	23.1	22.2	22.1
Net acquisition of nonfinancial assets	9.4	7.8	3.9	3.3	3.1	3.2	3.2	4.0
Net lending/borrowing (cash basis)	-9.4	-13.8	-8.1	-7.7	-5.0	-4.4	-3.3	-4.3
Net lending/borrowing (commitment basis)	-13.9	-17.4	-13.9	-5.3	-3.2	-2.7	-1.8	-3.0
Primary balance (commitment basis)[1]	-6.9	-10.1	-5.8	0.8	2.0	2.9	3.3	2.4
Primary balance excluding mining revenues (commitment basis)[1]	-9.4	-13.3	-11.4	-3.7	-2.2	-1.5	-1.2	-2.1
Public debt								
Total public debt (gross, end-period)[2,3]	103.3	150.3	112.1	110.9	110.2	100.8	94.1	88.5
External[4]	62.1	95.8	57.8	58.8	69.6	65.9	62.9	59.2
Domestic	41.2	54.5	54.4	52.1	40.6	34.9	31.3	29.3

Sources: Zambian authorities; and IMF staff estimates and projections.
[1] Adjusted for the accumulation/clearance of VAT refund claims and expenditure arrears.
[2] Nonresident holdings of local currency debt are included under domestic debt here, unlike in the DSA, which is conducted on a residency basis.
[3] Including arrears.
[4] Public and publicly guaranteed external debt.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

Republic of Zambia

MINISTRY OF FINANCE AND NATIONAL PLANNING
OFFICE OF THE MINISTER
[Website: www.mofnp.gov.zm]

REF:

MFNP/EMD/101/25/5

17th November, 2023

Mr. Ajay Banga
President
World Bank Group
1818 H Street, NW
Washington D.C., 20433
UNITED STATES OF AMERICA

Dear Mr. Banga,

RE: ZAMBIA LETTER OF DEVELOPMENT POLICY

On behalf of the Government of the Republic of Zambia, I write to request a Development Policy Operation, on grant terms, from the International Development Association (IDA). This Development Policy Operation (DPO-2) will be the second in a two-series programmatic Development Policy Financing (DPF) is meant to sustain the gains made in implementing reforms supported by the previous operation, the Development Policy Operation one (DPO-1).

2. The Operation will also continue to supporting Zambia at a crucial time to implement policy and institutional reforms seeking to restore macroeconomic stability, achieve debt sustainability, and promote private sector-led inclusive growth in line with Zambia's development aspirations. These reforms are foundational to the four strategic development areas identified by Government as espoused in the Eighth National Development Plan (8NDP). These are Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and Good Governance Environment.

3. The DPO-2 support will deepen our reform agenda by strengthening actions aimed at enhancing public debt management, improving agriculture productivity, strengthening energy access, and unlocking access to finance, stimulate private investments, and drive an inclusive, resilient and green growth.

1

P.O Box 50062, Chimanga Road, Lusaka, Phone: +260 211 254263, 250481, Fax: +260 211 253494, website: www.mofnp.gov.zm

I. MACROECONOMIC PERFORMANCE AND POLICIES

A. Recent Economic Developments and Outlook

4. **Growth.** Real GDP growth has improved in recent years and was recorded at 6.2 percent in 2021 and 5.2 percent in 2022 respectively. An upward growth trajectory has continued to be recorded in the first half of 2023 and was 4.4 percent in the first quarter and 5.0 percent in the second quarter, mainly driven by the Information Communication and Technology, tourism and transport sectors.

5. In the medium term, the economy is projected to expand at an average of 4.9 percent. Investments in the Mining, Agriculture and Manufacturing sectors, coupled with an improved macroeconomic environment expected from fiscal consolidation, debt restructuring, and the IMF supported Extended Credit Facility are expected to support growth prospects.

6. **Inflationary pressures** have continued with inflation edging upwards to 12.6 percent in October 2023 from 9.9 percent in December 2022. This has largely been driven by increases in prices of maize grain and meat products as well as the depreciation of the Kwacha against the major currencies. The Kwacha has depreciated by 14.8 percent in the year to October to an average of K21.30 per United States dollar largely on account of low supply of foreign exchange from the mining sector amid elevated demand.

7. In response to the rise in inflation and depreciation of the Kwacha, the Bank of Zambia undertook successive hikes with the policy rate reaching 10 percent in 2023. To relieve the persistent pressure on the Kwacha, the Bank of Zambia in November increased the statutory reserve ratio by 3 percentage points to 14.5 percent. The Kwacha in 2024 will benefit from the implementation of the export tracking framework, compelling all exporters to route earnings through a bank account domiciled in Zambia.

8. In the **external sector**, the merchandise trade surplus declined, therefore, weakening Zambia's external position in first half of 2023. The Merchandise trade surplus decreased to US$0.2 billion in first half of 2023 from US$1.7 billion during the same period in 2022. Higher growth in imports and a reduction in exports explained this outturn.

9. **Fiscal policy** is focused on maintaining a positive primary balance. In first half of 2023 revenues slightly underperformed and were below target by 0.4 percent, reflecting lower-than-expected company income tax collection due to lower payments made by mining companies. However, Value Added Tax (VAT) collections exceeded target by 4.1 percent supported by increased importation of petrol and

diesel which contributed significantly to import VAT revenue collections after the reinstatement of VAT on fuel last year. To achieve the overarching fiscal policy objective, Government constrained expenditures by 7.4 percent by reducing disbursements and releases to projects and the Farmer Input Support Programme.

10. **Debt.** Central Government's external debt increased to US $14.2 billion at end September 2023 from US $13.96 billion at end 2022, driven by new disbursement from concessional sources, mainly multilateral creditors. Domestic debt increased by 5.5 percent to K221.7 billion from K210 billion as at end-December 2022. The increase was attributed to new issuances of Government Securities to finance the budget.

B. Fiscal Policy and Debt Sustainability

11. The **key objective** of Government is **to create fiscal space** and rebuild fiscal buffers over the medium term. The fiscal policy targets to progressively reduce the fiscal deficit to 3.3 percent of GDP and sustain a positive primary balance over the medium-term. The fiscal deficit has been gradually reducing since 2022, and is expected to close at 5.8 percent of GDP in 2023 against a target of 7.7 percent. The improvement in the primary fiscal deficit, reflects Governments commitment to fiscal discipline.

12. **Government is enhancing domestic resource mobilization** in the medium term to about 22 percent of GDP by 2025 from 21.6 percent of GDP in 2022 to progressively narrow the fiscal gap to sustainable levels. In 2022, Government reinstated the Value Added Tax (VAT) and excise duty on the importation of petroleum products to support domestic revenue. To broaden the tax base further, Government is strengthening tax policies and leveraging on technology to enhance tax administration and improve tax compliance by sealing leakages. Key measures include; changing the operating model of the Zambia Revenue Authority (tax administrator); electronic invoicing; taxation of cross-border electronic services; digital services taxation; streamlining taxation for SMEs; expanding the scope of excisable products introduction digital stamps on bottled water, juices, energy drinks soda, alcohol and tobacco; streamlining the Mineral royalty regime; and reviewing of non-tax fees not adjusted in a longtime.

13. To restore public debt sustainability, Government has been **undertaking an external debt restructuring** exercise with official creditors under the G20 Common Framework. Following the agreement in principle that was reached in June this year with the official creditors, a Memorandum of Understanding will be executed between the parties. The debt restructuring deal is expected to deliver a 40 percent reduction in the net present value of the outstanding bilateral debt. To ensure that public debt remains within sustainable levels, Government has committed to only borrow what has been approved in the Annual Borrowing Plan by Parliament.

3

Government also has committed to borrow only concessional loans, mainly from the Multilateral Development Banks.

II. STRUCTURAL REFORMS TO SUPPORT GROWTH AND COMPETITIVENESS

14. **Government's structural reform agenda includes several fiscal and debt reforms as well as growth-enhancing policies.** Government's focus is to promote economic growth through enhanced private sector investment, increased production and productivity, and improved public service delivery.

i) Fiscal and Debt Reforms

15. **Strengthening commitment controls:** To halt the accumulation of new arrears, in June 2022, Government operationalized a Commitment Control Module in the Integrated Financial Management Information System (IFMIS) that links procurement commitments to cash availability. Government will ensure that all Spending Agencies register purchase orders and other financial commitments in the IFMIS.

16. Government is stepping up its efforts to **strengthen the public investment management (PIM) and the public-private partnerships (PPPs) frameworks.** A new set of PIM guidelines was adopted in early 2023, which jointly with the National Planning and Budgeting Act of 2020, provides sound legal basis for public investment management and constitutes important building blocks towards improved processes. In accordance with the PIM guidelines, all projects developed by Spending Agencies are required to be appraised before their inclusion in the Public Investment Plan and National Budget. An amended Public Private Partnership Act, was submitted to Parliament in July 2023, aimed at strengthening the framework for the selection and evaluation of PPP projects and help manage related fiscal risk.

17. **Public Debt Management and Transparency:** In December, 2022, the Public Debt Management Act (PDMA) was enacted. The PDMA aims to ensure transparency and accountability by requiring Parliamentary approval in loan contraction and requires Government to publish loans contracted annually.

18. **Strengthening Public Procurement:** Government has issued new public procurement regulations that enhance overall governance and transparency to ensure that public spending supports the Zambian economy and people in the most direct and efficient way possible. Government is promoting the utilization of the electronic Government procurement (e-GP) system to improve transparency and reduce human interaction in public procumbent.

ii) Growth-Enhancing Reforms

19. **Increasing Farmer Productivity and Access to Agricultural Markets:** Government is developing a Comprehensive Agriculture Support Program which will include

extension service support, access to finance, support to value addition, storage and logistics, among others to increase productivity. This is envisaged to enhance production and the implementation of the Farmer Input Support Programme. In addition, Government will accelerate the completion of farm blocks underway and set aside land in farm blocks for external investors as a means of attracting foreign investment. In livestock, Government will review and amend the Animal Health Act No. 27 of 2010 and Animal Identification Act No. 28 of 2010 to provide for an enabling environment and promote livestock production and productivity.

20. To increase farmer productivity, Government in, December 2022, approved an action plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System (e-voucher). The roll out the e-voucher system commenced with 33 districts in the 2023/24 growing season and establishes rules for the transparent selection of beneficiaries and increased private sector participation.

21. To support and enhance Private Sector participation in the Agriculture sector as well as enhance access to agricultural product markets, Government has extended the validity period for import and export permits from thirty (30) days to Ninety (90) days in line with the Business Regulatory Act of 2014. This move is aimed at providing the private sector adequate time to facilitate timely Imports and Exports of agricultural products. The extension will also provide relief as well as reduce the burden to the private sector for frequent applications of both exports and import permits.

22. In addition, Government through the Agriculture Credits Act of 2010 is committed through the current directive to enhance and revive the establishment of a Warehouse Licensing system aimed at verifying quantities and quality of Agriculture produce in storage facilities to ensure they meet the grain storage facilities and standards. The inspection tools for infrastructure commodities have been digitalized and earmarked to be tested by December, 2023 to harmonize with standards and systems. In October 2023, Food Reserve Agency warehouses were inspected and certified as part of the Zambian Commodity Exchange (ZAMACE) with over 100,000 MT of soya beans being sold on the exchange.

23. **Ensuring Sustainable Access to Energy:** To ensure low-cost of supply of electricity, Cabinet has approved the Integrated Resource Plan (IRP) that requires new investments in electricity to be aligned with the least cost path in the Integrated Resource Plan. This will be the blue print to guide future developments of using both on-grid and off-grid technologies into the sector.

24. Government is committed to ensuring that the reforms in this subsector not only result in improved efficiency in the procurement of petroleum products but also have cost reflective prices. Firstly, an upward revision of petroleum prices was effected in

December 2021 to remove price support. Secondly, the pricing cycle for petroleum products was adjusted from 60 days to 30 days effective 31st January, 2022. Thirdly, Government is supplying diesel through the TAZAMA pipeline which has lowered the cost of fuel transportation. To promote transparency in diesel supply by Oil Marketing Companies, Government issued open access guidelines for transportation of low sulfur diesel which provides rights of access to the pipeline.

25. **Enhancing Access to Finance and Private Sector Development:** Government has in July 2023 issued the commencement order to the Bank of Zambia Act No. 5 of 2022 which enhances the operational independence of the Bank of Zambia. The Act provides for the establishment of the Monetary Policy Committee and the Financial Stability Committee. To align financial services with Zambia's Nationally Determined Contributions under the Paris Agreement, Government, through the Bank of Zambia, has issued the Green Finance framework and Bank of Zambia Guidelines on Green Loans, which establish standards for the provision of green loans by Financial Institutions.

26. To enhance private sector investments, Government enacted the Zambia Development Act No.17 of 2022 and the Investment, Trade and Business Development Act No.18 of 2022. To bolster competitiveness of local products and market access, Government plans to establish a trade and industry data base, which will promote quality goods through the Proudly Zambia Campaign as well as development of a road map for identifying products of good standard and facilitating for their accreditation by the Zambia Bureau of Standards. To increase the inflow of Foreign Direct Investment, Government has published on the Zambia Development Agency website a 'Negative List' drawn from various pieces of legislation. This to enable alignment with World Trade Organisation Investment Facilitation Agreement and the Investment Protocol of the Africa Continental Free Trade Area Agreement. In addition, the Minister of Commerce, Trade and Industry has also signed a Statutory Instrument on the Investment, Trade and Business Development Act on priority sectors to address historical economic challenges, attract investments, diversify the economy and promote sustainable development.

CONCLUSION

27. The policies and actions outlined in this letter will go a long way towards achieving the country's recovery and inclusive prosperity agenda as outlined in the 8NDP and Vision 2030. In order to implement the reforms, there will also need to be ongoing communication and cooperation with the business community, civil society, local governments, and development partners. Against this background, we request the World Bank's assistance to support the realization of this program.

28. Please accept assurances of my highest consideration.

Hon. Dr. Situmbeko Musokotwane, MP
Minister of Finance and National Planning
MINISTRY OF FINANCE AND NATIONAL PLANNING

7

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Restoring fiscal and debt sustainability		
Prior Action #1. To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.	N.A.	No significant direct effects. Positive indirect effects. Improved debt management supports sustainable poverty reduction as macroeconomic crises are among the major drivers of large poverty spikes.
Prior action #2. To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued a circular which requires the appraisal of that all major investment projects developed by Ministries, Provinces, and Spending Agencies before their inclusion in the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation.	Positive	Neutral in the short term. Potential positive effects in the medium term if the increased efficiency of public investment and increased private sector participation help lower critical infrastructure gaps, which disproportionately affect the poor.
Operation Pillar 2: Increasing farmer productivity and access to agricultural markets		
Prior action #3. To increase farmer productivity, the Recipient, through its Cabinet, has approved the 'Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System', which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.	Positive	Neutral distributional effect in the short-term, provided the transition goes seamlessly. In the medium term, the potential increase in agricultural productivity and diversification is expected to increase the welfare of the poor.
Operation Pillar C: Ensuring sustainable access to energy		
Prior action #4. To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.	Positive	Positive direct impact on the poor through increased access to electricity.
Prior action #5. To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.	Positive	Potentially positive impact on the poor if increased efficiency translates into lower prices.

Operation Pillar D: Enhancing access to finance and private sector development		
Prior action #6. To align financial services with the Recipient's Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.	Positive	No significant direct effects. Positive indirect effects in the medium term as the expected development of financial instruments to finance climate-resilient investments has the potential to reduce vulnerability to climate change, which is largest among the poor.
Prior action #7. To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.	N.A.	No significant direct effects in the short run. Positive direct impact in the medium term through increased private sector employment opportunities.

1. **Prior Action #3 is expected to have positive effects on the environment.** FISP sits under the Comprehensive Agricultural Support Programme (CASP), whose main components include infrastructure development, irrigation development, livestock development, extension services support, farm block development, and climate change adaptation. The changes to the FISP, especially the e-voucher program, will de-emphasize maize production and facilitate the acquisition of inputs for other crops, livestock, and fish farming. Supporting productive diversification and the potential for application of good practices such as intercropping and rotations is considered to enhance the resilience of production systems and to provide a range of ecosystem services, including improved levels of soil organic matter, which is related to nutrient retention, soil stability, water (in-)filtration, reduction of soil erosion, and enhance plant growth, pollination, pest suppression, or groundwater recharge. Another effect of the e-voucher system may be a reduction in fertilizer use to benefit other inputs, such as improved seeds, small machinery, plant protection, and vaccination materials. While it is hard to predict the type and extent of these changes, there is a consensus that individual farmers can better make decisions for the sustainability of their production systems than if a specific package is imposed on them countrywide. Furthermore, the e-voucher system will allow a timely fertilizer supply, accompanied by agronomic advice; farmers are expected to apply fertilizer more efficiently, which may help reduce greenhouse gas emissions.

2. **Prior action #4 is to ensure a low-cost electricity supply aligned with the least-cost path in the IRP**. The least cost will likely include a combination of hydro, solar, wind, coal, and geothermal as the optimal solution for Zambia. Hydro will remain the dominant generation source through the plan period, comprising 85, 53, and 36 percent of total installed capacity in 2023, 2030, and 2050. The IRP recommends that the future priority for hydro should be to develop projects in the Northeastern area of the country, which forms part of the Congo River catchment area and is anticipated to have more stable hydrology over the coming decades than the Zambezi catchment area. The IRP determines that variable renewable energy sources (VRES) such as renewables (biomass, wind, and solar) are cheaper but may cause grid fluctuations because of their generation instability. VRES will likely increase grid capacity by 3, 33, and 45 percent in 2023, 2030, and 2050. The percentage of electricity generated from carbon-emitting sources is currently 12 percent (June 2023), which will reduce to 10 percent in 2030 and remain at 10 percent in 2050 based on modeling results. Therefore, carbon-emitting energy sources like coal and others will likely be embedded in the IRP to generate some thermal energy. Still, Zambia has committed to reducing

emissions by at least 25 percent in absolute terms through its NDC submitted to the UN Framework Convention on Climate Change (UNFCCC). Sustainable Development Goal #7 could be achieved by 2030 if there is an increased percentage mix of VRES from the 3, 33, and 45 percent of grid capacity through increased access to clean energy research and technology, including renewable energy and energy efficiency. The planned percentage of fossil fuel use should be based on advanced and cleaner fossil-fuel technology, which is unclear at this stage. The scheduled use of coal, Heavy Fuel Oil, and Petroleum/Diesel, albeit at a reduced rate of 2 percent, will still produce hazardous air pollutants, including GHGs, sulfur dioxide, nitrogen oxides, particulate matter, carbon monoxide, and mercury if the cleaner technologies are not incorporated into the IRP.

3. **Prior action #5 aims to promote a competitive diesel fuel supply by oil marketing companies by improving access to the TAZAMA Pipeline.** This action assumes the modernization of the pipeline and advanced features that will significantly enhance efficiency and security in the transportation of finished petroleum products to Zambia. This will avoid environmental degradation by mitigating oil leaks from corroded pipes. The improved access could also imply the increased supply of refined petroleum products to Zambia using a possible new refined petroleum products pipeline from Tanzania. A resulting reduction in transport costs from pipeline improvements and expansion could reduce GHG emissions but this requires further assessment. Lower transport costs, when passed to the consumer, could result in increased consumption and emissions of GHGs. However, the pipeline is not being extended at this stage and only improves the delivery of existing volumes. Transport cost reduction benefits could result in improving the efficiency of the transportation process and reducing fuel consumption through equipment efficiencies, serving, and pollution reduction.

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objectives: Help Zambia restore macroeconomic stability and debt sustainability and promote private-sector-led inclusive growth.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country's climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Answer** Yes. **Explanation**: The DPF's objectives are consistent with Zambia's policies and commitments to make the economy less carbon-intensive and more resilient to climate change.
Mitigation goals: assessing and reducing the risks	
Pillar A Objective: Restoring fiscal and debt sustainability.	
Prior Action 1: To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: Borrowing solely from concessional sources rather than on commercial terms does not bias public spending towards GHG-emitting activities.
Conclusion for PA 1: Aligned	
Prior Action 2: To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued a circular which requires the appraisal of that all major investment projects developed by Ministries, Provinces and Spending Agencies before their inclusion in the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: Appraising proposed projects and assessing proposed PPPs for fiscal risks do not affect GHG emissions. The PPP Law does not bias public investments towards GHG-emitting activities. It will strengthen MOFNP's authority and institutional capacity to ensure that public investments financed as PPPs align with Zambia's climate commitments and other national development priorities.
Conclusion for PA 2: Aligned	
Pillar B Objective: Increasing farmer productivity and access to agricultural markets.	
Prior Action 3: To increase farmer productivity, the Recipient, through its Cabinet, has approved the 'Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System', which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No. **Explanation**: Switching from direct provision of inputs to the use of electronic vouchers is unlikely to affect GHG emissions. Giving farmers the choice of inputs to procure is expected to increase production through intensification rather than expanded land use.
Conclusion for PA 3: Aligned	

Pillar C Objective: Ensuring sustainable access to energy	
Prior Action 4: To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** Yes **Explanation**: The IRP increases energy supply from thermal (GHG-emitting) sources between 2023 and 2050.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No. **Explanation**: The IRP was explicitly designed to align with Zambia's NDCs. The percentage of electricity generated from GHG-emitting sources will decline under the IRP (from 12 percent in June 2023 to 10 percent in 2030 and remaining at 10 percent in 2050).
Conclusion for PA 4: Aligned	
Prior Action 5: To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No. **Explanation**: Switching the mode of transport from trucks to the pipeline reduces GHG emissions associated with importing diesel fuel. This measure does not affect the retail price of diesel fuel (and therefore the quantity demanded) or increase the total amount of diesel fuel supplied to the Zambian market. This reform is not expected to affect the fuel intensity of the Zambian economy.
Conclusion for PA5: Aligned	
Pillar D Objective: Enhancing access to finance and private sector development	
Prior Action 6: To align financial services with the Recipient's Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No. **Explanation**: These measures are aimed at biasing financing towards investments in activities that generate less GHGs rather than more GHGs, consistent with Zambia's climate commitments.
Conclusion for PA 6: Aligned	

Prior Action 7: To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No. **Explanation**: Assuming that limits on FDI into a sector will constrain economic activity in that sector, this policy measure is unlikely to increase GHG emissions as it, on balance, is biased against foreign equity participation in several GHG-emitting activities. The negative list blocks FDI in timber activities, Zambia's largest source of GHG emissions. The regulation also prohibits foreign equity participation in artisanal mining and limits foreign equity participation in relatively GHG-intensive activities such as domestic haulage for public procurement contracts, small-scale mining, commercial cleaning, and airport services, as well as non-emitting activities such as broadcasting, insurance, live birds, and mineral trading.
Conclusion for PA 7: Aligned	
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program: Aligned	
Adaptation and resilience goals: assessing and managing the risks	
Pillar A Objective: Restoring fiscal and debt sustainability	
Prior Action 1: To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: Borrowing solely from concessional sources rather than on commercial terms is essential for achieving the PDOs and gives the GRZ more fiscal space to manage climate risks.
Conclusion for Prior Action 1: Aligned	
Prior Action 2: To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued a circular which requires the appraisal of that all major investment projects developed by Ministries, Provinces and Spending Agencies before their inclusion in the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: Climate hazards are unlikely to affect the GRZ's ability to appraise projects or assess PPPs for fiscal risks. The reform measures are not sector-specific and do not bias public investment towards activities vulnerable to climate hazards.
Conclusion for Prior Action 2: Aligned	

Pillar B Objective: Increasing farmer productivity and access to agricultural markets.	
Prior Action 3: To increase farmer productivity, the Recipient, through its Cabinet, has approved the 'Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System', which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: Providing farmers with the flexibility to buy inputs of their choice is intended to facilitate diversification out of the production of crops vulnerable to the expected shift towards lower rainfall and into more climate-resilient agricultural activities.
Conclusion for Prior Action 3: Aligned	
Pillar C Objective: Ensuring sustainable access to energy	
Prior Action 4: To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: The IRP is explicitly designed to reduce Zambia's vulnerability to climate hazards, most notably the effects of rainfall variability on hydropower output.
Conclusion for Prior Action 4: Aligned	
Prior Action 5: To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: Climate hazards are unlikely to affect the transparency of assigning rights to use the pipeline or the contribution of this policy reform to meeting the PDOs.
Conclusion for Prior Action 5: Aligned	
Pillar D Objective: Enhancing access to finance and private sector development	
Prior Action 6: To align financial services with the Recipient's Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: Climate hazards are unlikely to affect the implementation of BOZ's guidelines. These guidelines should instead contribute towards the PDOs of macroeconomic stability and private sector development by increasing investment in climate-resilient activities.
Conclusion for Prior Action 6: Aligned	

Prior Action 7: To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	**Answer:** No. **Explanation**: Climate risks are not expected to have an adverse effect on the reform's contribution to the Development Objectives. It may even reduce the vulnerability of the PDOs to climate change, albeit probably only slightly. The negative list includes a few items that may be considered vulnerable to climate hazards (e.g., artisanal and small-scale mining). Assuming that FDI restrictions will dampen economic activity, these provisions would contribute towards increasing the economy's resilience to climate hazards.
Conclusion for Prior Action 7: Aligned	
Adaptation and resilience: Conclusion of the Assessment for the Program: Aligned	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT: Aligned	

ANNEX 6: COMPARISON BETWEEN DPF1 INDICATIVE TRIGGERS AND DPF2 PRIOR ACTIONS

DPF1 Indicative Triggers	DPF2 Prior Actions	Notes
	Pillar A: Restoring fiscal and debt sustainability	
	Prior action #1. To strengthen debt accountability and transparency, the Recipient, through its Ministry of Finance and National Planning, has submitted to parliament for approval the 2024 Annual Borrowing Plan, which restricts external borrowing to concessional sources.	PA#1 seeks to reduce external borrowing costs and associated risks, as well as signal Zambia's commitment to prudent debt management to its creditors. Reliance on concessional financing is essential to reduce debt vulnerabilities. This policy measure complements fiscal and debt sustainability measures contained under pillar 1.
Indicative Trigger #1. The Ministry of Finance and National Planning has i) issued implementing regulations under the PPP Act, and ii) published a Fiscal Commitment and Contingent Liabilities framework for assessing PPPs.	Prior action #2. To improve budgetary governance and credibility, the Recipient has, through its Cabinet, (i) issued a circular which requires the appraisal of that all major investment projects developed by Ministries, Provinces and Spending Agencies before their inclusion in the national budget, and (ii) submitted to Parliament the Public-Private Partnership (PPP) Bill which inter alia requires the assessment of fiscal commitments and contingent liabilities for projects before implementation.	DPF2 trigger has been modified as a new PPP Act was drafted and submitted to Parliament, which supersedes the regulations envisioned in the trigger. The new PPP Act requires the assessment of fiscal commitments and contingent liabilities for projects before implementation. MOFNP is on track preparing the PPP Fiscal Commitments and Contingent Liability Management Guidelines. The results indicator defined in DPF1 has not changed and is expected to be met by the operation's closing date.
Indicative Trigger #2. The Ministry of Finance has published on its website quarterly debt statistical bulletins for 2023 within three months after the close of each quarter.		The Ministry of Finance continues to publish the quarterly debt statistical bulletins envisioned by the indicative trigger. PA #1 was added to send a stronger signal of the GRZ's commitment to debt accountability and transparency. The results indicator defined in DPF1 is expected to be met by the operation's closing date.

Indicative Trigger #3. The Ministry of Finance and National Planning has i) issued revised Public Procurement Regulations to implement the Public Procurement Act, 2020, and ii) required all controlling officers in all procuring entities that have been trained in the use of the electronic government procurement (e-GP) system to start enforcing its use.		The indicative trigger moved faster than expected and was dropped. MOFNP issued Public Procurement Regulations under the Public Procurement Act, 2020. These were gazetted in April 2022. The authorities also adopted procurement regulations requiring controlling officers in procuring entities to be trained in electronic government procurement (e-GP) and are progressing regarding their training.
Pillar B: Increasing farmer productivity and access to agricultural markets		
Indicative Trigger #4. To promote crop and livestock diversification, improved beneficiary targeting, and improved program management and administration, Ministry of Agriculture has published revised FISP guidelines in line with the new electronic-based agro-input system.	Prior Action #3. To increase farmer productivity, the Recipient, through its Cabinet, has approved the 'Action Plan for the Full Migration of the Farmer Input Support Programme (FISP) to an Electronic Agricultural Input Support System', which establishes migration principles and criteria that promote transparency in beneficiary selection and private sector participation.	DPF2 trigger maintained and converted into a prior action.
Indicative Trigger #5. Cabinet has approved and submitted to Parliament a revised Food Reserve Agency (FRA) Act with a specific mandate to assist DMMU in responding to food security emergencies and support food security; limits market interventions; and sets a legally binding Strategic Grain Reserve stock size to a maximum of three months of consumption.		DPF2 trigger was dropped because the reforms are challenging and taking more time to implement, and they require additional consultation with stakeholders.

Pillar C: Ensuring sustainable access to energy		
	Prior action #4. To expand electricity access to poor and vulnerable households and support investments in non-hydro renewable energy, the Recipient has, through its Cabinet, approved a long-term Integrated Resource Plan as a blueprint to guide future developments in the use of off-grid and on-grid technologies.	This Prior Action aims to keep the momentum on energy reform, committing the GRZ to diversify investments to renewable sources and expand access to vulnerable populations, especially women. The policy reform aligns with DPF1 trench release condition #2, which supported policy reforms needed to introduce a cost-reflective multi-year tariff with a lifeline tariff to ensure affordable access for the poor and vulnerable.
Indicative Trigger #7. The Ministry of Energy has implemented a transparent bulk procurement system for all government-procured petroleum products.	Prior Action #5. To promote transparency in diesel supply by oil marketing companies, the Recipient, through its Ministry of Energy, has (i) issued the Energy Regulations (General) Regulations, 2023, which provide licensing and transporting requirements through a Pipeline and (ii) adopted the TAZAMA Pipeline Open Access Guidelines for Transportation of Low Sulphur Gasoil, which inter alia provide rights of access to the Pipeline.	The GRZ has fully withdrawn from the bulk procurement of fuel and instead limit its role in the market to coordination only. The trigger has been modified to support ERB's establishment of an open-access framework for oil marketing companies to use the pipeline and increase transparency and rule-based allocation.
Pillar D: Enhancing access to finance and private sector development		
Indicative Trigger #8. The Bank of Zambia has i) issued implementing regulations for the revised Bank of Zambia Act, and ii) issued Green Loan Guidelines, including for climate friendly investments, to financial services providers.	Prior Action #6. To align financial services with the Recipient's Nationally Determined Contributions under the Paris Agreement, the Recipient, through the Bank of Zambia, has approved a Green Finance Framework and issued the Banking and Financial Services (Green Loans) Guidelines.	DPF2 trigger on Green Loans is maintained and converted into a prior action. It adds the Bank of Zambia Green Finance Framework, which integrates environmental risk assessments into BoZ's supervision of the financial sector and requires financial institutions to disclosure climate-related risks. The BoZ Act was repealed, and the new Law has commenced effective August 22, 2023, pending the issuance of implementing regulations.
Indicative Trigger #9. The Ministry of Commerce Trade and Industry (MCTI) has rolled out the single licensing system to all businesses in the tourism sector under the Business		DPF2 trigger was dropped as the GRZ is rolling out a single licensing window, currently piloted for the accommodation sector. Still, it has issued two S.I.s that reduce businesses' compliance time and costs, reducing the number of licenses to 12 from 14.

Regulatory Review Authority and has expanded coverage to at least three other sub-sectors.		
Indicative Trigger #10. i) The Ministry of Commerce has adopted regulations to the Investment, Trade and Enterprise Development bill to streamline and improve the transparency in the use of incentives; and ease restrictions on FDI entry, and; (ii) the Small Claims Court Act has been amended with a view to increase the size of the settlements that can be brought to the court; expand the Court's jurisdiction and appeal mechanisms; and expedite the recovery process by the financial institutions when it comes to recovery of the funds they lend out to SMEs.	Prior Action #7. To increase the inflow of foreign direct investment, the Recipient, through the Zambia Development Agency, has published on its website instructions on foreign investments, which consolidate FDI entry rules and adopt a negative list, aligning with the transparency obligations under WTO Investment Facilitation Agreement and Investment Protocol of the Africa Continental Free Trade Area Agreement.	DPF2 trigger on regulations to ease restrictions on FDI has been refocused and converted into a prior action to consolidate investment entry rules and further align with transparency obligations of WTO and AfCFTA trade agreements. The results indicator defined in DPF1 has not changed and is expected to be met by the operation's closing date.

ANNEX 7: DEBT STATISTICS

Stock of Public and Publicly Guaranteed Debt, by Creditor, 2022–24

	Debt stock (end of period) [2]			Debt service [3]			
	2022			2023	2024	2023	2024
	(In US$)	(Percent total debt)	(Percent GDP) [10]	(In US$)		(Percent GDP)	
Total	33,365	100.0	119.6	3,499	3,724	11.8	12.5
External foreign-currency debt	18,340	55.0	65.7	483	606	1.6	2.0
Multilateral creditors[4]	3,568	10.7	12.8	140	149	0.5	0.5
IMF	186	0.6	0.7				
World Bank	2,078	6.2	7.4				
ADB/AfDB/IADB	886	2.7	3.2				
Other Multilaterals	418	1.3	1.5				
o/w EIB	195	0.6	0.7				
o/w IFAD	136	0.4	0.5				
Bilateral creditors[5]	6,327	19.0	22.7	132	220	0.4	0.7
Paris Club	1,477	4.4	5.3	24	40	0.1	0.1
o/w: Israel	473	1.4	1.7				
o/w: UK	238	0.7	0.9				
Non-Paris Club	4,850	14.5	17.4	108	180	0.4	0.6
o/w: China	4,174	12.5	15.0				
o/w: India	331	1.0	1.2				
Eurobonds	3,517	10.5	12.6	148	166	0.5	0.6
Commercial creditors	3,235	9.7	11.6	63	70	0.2	0.2
Fuel arrears	721	2.2	2.6	n/a	n/a	n/a	n/a
Arrears to external contractors	832	2.5	3.0	n/a	n/a	n/a	n/a
ZESCO external IPP arrears	139	0.4	0.5	n/a	n/a	n/a	n/a
Domestic-currency debt	15,025	45.0	53.9	3,016	3,118	10.1	10.5
Held by residents, total	8,993	27.0	32.2	2,572	3,375	8.6	11.3
Held by non-residents, total	2,621	7.9	9.4	445	320	1.5	1.1
T-Bills	2,211	6.6	7.9	2,017	2,017	6.8	6.8
Bonds	9,403	28.2	33.7	999	1,101	3.4	3.7
Loans	-	-	-				
Domestic budget arrears and ZESCO domestic IPP arrears	3,412	10.2	12.2				
Memo items:							
Collateralized debt[6]	2,428	7.3	6.8				
o/w: Related							
o/w: Unrelated							
Contingent liabilities	n/a	n/a	n/a				
o/w: Public guarantees							
o/w: Other explicit contingent liabilities[7]							
SOE guaranteed external debt[8]	1,517	4.5	4.2				
SOE non-guaranteed external debt (ZESCO)[8]	93	0.3	0.3				
Total external PPG debt[9]	20,961	62.8	58.7				
Nominal GDP	29,742						

1/ Based on end-December 2022 data from the authorities (before the application of the debt treatment) and IMF staff estimates. It includes arrears on principal and interest. It does not include any penalty fees or interest on the arrears.
2/ Includes direct debt to central government, SOE guaranteed debt and non-guaranteed debt of ZESCO
3/ Based on the debt treatment received under the Common Framework on [...]
4/ "Multilateral creditors" are simply institutions with more than one sovereign as a shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
5/ Includes loans to central government and loans backed by guarantee from an official export-credit agencies.
6/ Based on latest available data, as of end-December 2022, there was around $2.5 billion of disbursed external foreign-currency debt (inlcuding non-guaranteed debt of ZESCO) with some form of security or escrow arrangement that could be considered as collateralized debt, including debt with a government guarantee or third-party (exporter) guarantee as security. Almost all this debt is in arrears and, where the security or escrow provides for a claim on funds in a specific account, the authorities have reported zero balances in those accounts. The exception is the non-guaranteed external debt of ZESCO which is collateralized with receivables and which is being serviced. Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20
7/ Based on information received, there are no such contingent liabilities. Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).
8/ Reflected in external foreign-currency public debt in this table.
9/ Total PPG external debt comprises total external foreign-currency debt, domestic-currency debt held by non-residents, fuel arrears, arrears to external contractors, and ZESCO non-guaranteed external debt and arrears.
10/ The debt-to-GDP ratios are calculated from the value in national currency by converting outstanding debt in US dollars at eop exchange rate, and nominal GDP at average period exchange rate.

Source: World Bank and IMF, "Zambia: Debt Sustainability Analysis," July 2023.