

## **PROJECT: ADVOCACY FOR PRUDENT PUBLIC DEBT MANAGEMENT IN ZAMBIA (2020-2022)**

### **Summary**

This grant aims to support CUTS work under its economic governance programme to strengthen advocacy on prudent public debt management as CUTS has undertaken research on Zambia's debt position over the past few years.

This project's focus is on improving public debt management in Zambia. High public debt levels are still a major economic challenge for Zambia, resulting in the government struggling to raise sufficient resources for development needs. The COVID-19 pandemic has further exacerbated Zambia's debt programme and forced the government to re-budget and prioritise expenditures. The legal framework guiding debt management needs revision as it has gaps and weaknesses. Based on these issues, this project will utilise various research conducted on public debt by CUTS Lusaka and partners to advocate for prudent public debt management and appropriate prioritisation of expenditures in the COVID-19 era.

### **Background**

Zambia is faced with an even more significant debt challenge in light of the current COVID-19 pandemic. To help deal with the current economic challenges caused by the pandemic, the government has had to borrow more resources which threatens debt sustainability. A significant increase in the fiscal deficit in 2019 shows the government's difficulties with public debt management as the country is spending significantly more than it has.

According to Fitch Ratings,<sup>1</sup> high debt levels will remain a key vulnerability, even if recently announced measures effectively slow the pace of further debt accumulation. According to the Minister of Finance, Zambia recorded a primary fiscal deficit of 8.2 percent of gross domestic product (GDP) in 2019, well above the budget target of 6.5 percent. Budget expenditures exceeded the 2019 budget by approximately 9 percent, reflecting higher interest payments, which were one percent of GDP above target due to the currency's sharp depreciation and capital expenditures and subsidies.<sup>2</sup>

With rating agencies continuing to downgrade Zambia, the investment climate is perceived as hostile. Efforts by the government to raise revenue from mining and agriculture are failing due in part to unstable commodity prices and limited new investment in the two sectors. These challenges, including unsustainable borrowing practices, have compromised Zambia's ability to secure a bailout programme from the IMF.

This means that a combination of dwindling revenue from mining, an ailing economy, debt servicing obligations and measures to contain COVID-19 may leave the country severely constrained and further deteriorate the economy. Most importantly, this may lead to limited

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<sup>1</sup> <https://www.fitchratings.com/research/sovereigns/zambia-2019-debt-rise-highlights-fiscal-challenges-05-03-2020>

<sup>2</sup> <https://www.worldbank.org/en/news/feature/2020/01/08/january-2020-global-economic-prospects-slow-growth-policy-challenges>

or no investment in social sectors and human development, escalating poverty and inequality. According to the World Bank, growth in sub-Saharan Africa has been significantly impacted by the ongoing COVID outbreak. Its forecast to fall sharply from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020. It will lead to the first recession in the region in the past 25 years. The projected growth for Zambia in the same period is -4.4 percent.

### **Project Activities**

- CUTS staff capacity building
- Workshops for civil society organisations, academia, think tanks, the media, government officials, youth groups and political parties
- Legislative analysis of the Loans, Grants and Guarantees Authorisation (LGGA) Act and Access to Information Bill
- National budget analysis
- Advocacy initiatives, such as parliamentary submissions and meetings with policymakers and International Financial Institutions
- Bi-annual National Economic Symposiums
- Outreach activities such as radio and TV programmes, media briefings and statements and newspaper articles
- Publication of policy briefs

### **Partner/Sponsors**

Funded by National Democratic Institute (NDI), which began working in Zambia in 1991 during the country's first multiparty presidential election since the 1960s and first political transition of power. Since then, the Institute has worked with Zambian political party leaders, citizen election monitoring organisations and civil society partners to support political party strengthening, election observation efforts and the inclusion of traditionally marginalised groups. This includes women, youth and persons with disabilities in political and electoral processes.

NDI's work with CUTS Lusaka has been to promote evidence-based policy development, governance accountability, transparency, and citizen participation. The US Agency for International Development (USAID) has supported this project to provide capacity building and technical assistance to civil society partners to advocate for more transparent, accountable and inclusive political and electoral systems in Zambia.

### **Expected Outcomes**

- Enhanced staff capacity and improved their analytical skills to understand debt management issues better
- Strengthened advocacy around the revision of the Loans and Guarantees Act, the IMF programme and reprogramming of the debt
- Enhanced capacity of CSOs, government and the media on debt management issues