

first successful PFM reform initiatives include the enactment of the Public Debt Management Act (2022), the adoption of a Revenue Action Plan, or the Domestic Arrears Dismantling Strategy.

Several governance weaknesses in the management of public finances, including the weak parliamentary oversight over the Executive, contributed to the recent sovereign debt crisis. While unfavourable macroeconomic factors played a significant role, governance shortcomings contributed significantly to the accumulation of sovereign debt and the subsequent crisis. Recognizing the problem, the authorities have embarked on a number of governance measures to strengthen debt management. A new Public Debt management Act was adopted to tighten control on the authority to borrow, strengthen oversight, clarify objectives of debt contraction and enhance risk management around government guarantees. The authorities have started publishing a quarterly debt statistics bulletin with comprehensive statistics publishing summary information on the financing agreements for all newly contracted external loans (also required through ECF conditionality). With the support of the EU and Germany, the MoFNP has conducted a diagnostic of its investment and debt management department in view of establishing a new Debt Management Office, as part of the 2023 MoFNP re-organisation.

Governance weaknesses arise from weak expenditure controls and persistent accumulation of arrears. Large number of budget expenditure commitments occur in MPSAs with limited visibility to the MoFNP. Due to acute cash constraints and cash rationing, many government bills remain unpaid. Arrears outstanding as of December 2022 are USD 4.08 billion, equivalent to 21.6% of GDP. Interest payments charged on overdue invoices are a significant source of waste in public finances as well. The Auditor General 2020 report indicates that wasteful expenditure on delayed payments totalled ZMW 1.4 billion. The authorities made a commitment under the Extended Credit Facility to prevent the accumulation of new arrears¹⁷. With the Support of the European Union and Germany, MoFNP published a strategy for clearing the expenditure arrears, which includes the criteria for prioritization and timing of the payments.

The fragmented use of IT systems creates risks to operational and governance efficiency and inflates development and maintenance costs. At present, there are number of different information systems and digital solutions utilized in PFM, including central FMIS, budget management information systems in statutory bodies and districts and the e-GP (public procurement). Zambia has invested in developing institutional and legal frameworks to implement a digital transformation agenda. The Smart Zambia Institute is in charge of leading and coordinating the development of IT system, IT infrastructure, IT services and compliance. The President has signed the commencement order for the Electronic Government Act (2021). Implementing regulations to ensure digital transformation are being developed. Focus areas and priority programs include transitioning to a cash-light economy and migrating bulk government cash payments onto a digital platform, development of key public sector infrastructure and application of the digital signature, construction of an integrated national data centre infrastructure, extension of the government wide area network backbone infrastructure, and integration and enhancement of a secure government ICT network connectivity infrastructure in underserved districts.

The MoFNP is also working on enhancing and expanding the IFMIS system. A contract has been signed for the IFMIS enhancement with the system provider to activate the budget release process as originally intended and thus facilitate the expenditure control process. After completion of the user acceptance testing, the Office of the Accountant General will take a lead in training the MPSAs staff in updated system functionality. The consultations are underway on potential inclusion of statutory bodies into the FMIS. The authorities have reached out to Cooperating Partners to carry out a feasibility study of rolling out FMIS in districts and Grant Aided Institutions (GAIs), versus deploying alternative solutions.

Over the past few years, Zambia's tax regime was characterized by a large number of ad-hoc tax reforms. This has sparked numerous complaints from the private sector, especially mining companies, who are advocating for a more stable and predictable tax and legal framework. In response, the GRZ has started to modernize the Zambian tax regime, making it more business friendly and reliable, gradually moving away from taxing income and increasingly relying on the taxation of consumption.

The MoFNP is responsible for formulating policies on tax and non-tax revenue generation, which includes managing tax expenditures (e.g. tax exemptions, tax holidays or preferential tax rates). These are the cause for significant amounts of revenues to be missed each year. With the support of USAID, MoFNP is conducting a cost-benefit analysis of such existing tax incentives.

¹⁷ Excluding debt servicing arrears.