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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR75.2 (US\$100 MILLION EQUIVALENT)

COMPRISING

A DEVELOPMENT POLICY GRANT OF SDR18.8 MILLION (US\$25 MILLION EQUIVALENT)

AND

A DEVELOPMENT POLICY GRANT WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION OF
SDR56.4 MILLION (US\$75 MILLION EQUIVALENT)

TO THE

REPUBLIC OF ZAMBIA

FOR A

FIRST ZAMBIA CLIMATE AND ECONOMIC RESILIENCE DEVELOPMENT POLICY FINANCING WITH A
CATASTROPHE DEFERRED DRAWDOWN OPTION

November 22, 2024

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

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Ministry of Finance and National Planning

GOVERNMENT FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 15, 2024)

Currency Unit: Zambian kwacha

US\$1.00 = 27.43

ABBREVIATIONS AND ACRONYMS

AEHPMP	Africa Environmental Health and Pollution Management Program	MOFNP	Ministry of Finance and National Planning of Zambia
BOZ	Bank of Zambia	MTEF	Medium-Term Expenditure Framework
CAD	Current Account Deficit	MW	Megawatts
Cat-DDO	Catastrophe Deferred Drawdown Option	NCD	Nationally Determined Contribution
CPF	Country Partnership Framework	ND-GAIN	Notre Dame Global Adaptation Initiative
DCC	Debt-Carrying Capacity	NWASCO	National Water and Sanitation Council
DPF	Development Policy Financing	OCC	Official Creditors Committee
DRM	Disaster Risk Management	PA	Prior Action
DSA	Debt Sustainability Analysis	PDO	Program Development Objective
8NDP	Eighth National Development Plan	PFM	Public Financial Management
ECF	Extended Credit Facility	PFR	Public Finance Review
EIA	Environmental Impact Assessment	PPG	Public and Publicly Guaranteed Debt
GDP	Gross Domestic Product	PPP	Public-Private Partnership
GIZ	German Gesellschaft für Internationale Zusammenarbeit	SCD	Systematic Country Diagnostic
GNP	Gross National Product	SCT	Social Cash Transfer
GRZ	Government of the Republic of Zambia	SDFP	Sustainable Development Finance Policy
IBRD	International Bank for Reconstruction and Development	SDR	Special Drawing Rights
IDA	International Development Association	SoE	State-owned Enterprise
IFC	International Finance Corporation	SI	Statutory Instrument
IMF	International Monetary Fund	WB	World Bank
LDP	Letter of Development Policy	WBG	World Bank Group
LCMS	Living Conditions Monitoring Survey Report	ZEMA	Zambia Environmental Management Agency
MTEF	Medium-Term Expenditure Framework	ZESCO	Zambia Electricity Supply Corporation Limited

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REPUBLIC OF ZAMBIA

First Zambia Climate and Economic Resilience Programmatic DPF with Cat-DDO

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM****BASIC INFORMATION**

Operation ID	Programmatic	If programmatic, position in series
P507116	Yes	1st in a series of 2

Proposed Development Objective(s)

The program development objective is to: (i) enhance fiscal management and resilience, (ii) promote private-sector investment and resilience in enabling sectors, and (iii) strengthen disaster risk management and climate resilience.

Organizations

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PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

**SUMMARY**

Total Financing	100.00
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DETAILS**World Bank Group Financing**

International Development Association (IDA)	100.00
IDA Grant	100.00

IDA Resources (US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	0.00	81.25	0.00	0.00	81.25
Crisis Response Window (CRW)	0.00	18.75	0.00	0.00	18.75
Total	0.00	100.00	0.00	0.00	100.00

PRACTICE AREA(S)**Practice Area (Lead)**

Macroeconomics, Trade and Investment

Contributing Practice Areas

Urban, Resilience and Land

CLIMATE**Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING**Overall Risk**

● Substantial



RESULTS

Baseline	Closing Period
Pillar A – Enhance fiscal management and resilience	
Mineral royalties collected that are deposited in a stabilization fund (cumulative) (Percentage)	
Sep/2024	Nov/2028
0	2.50
Loans by public bodies raising funds from outside the Republic that have been adequately credit risk assessed (Percentage)	
Sep/2024	Nov/2028
0	100
Carbon projects following international quality standards approved under the provisions of the Climate Change Bill (Number)	
Oct/2024	Dec/2028
0	1
Pillar B – Promote private-sector investment and resilience in enabling sectors	
PPP schemes tendered in enabling sectors (Number)	
Oct/2024	Dec/2028
0	3
Additional installed capacity in non-hydro renewable energy (Megawatt)	
Oct/2024	Dec/2028
0	1,998
Additional private sector investments in non-hydro renewables (cumulative in billions) (Amount(USD))	
Oct/2024	Dec/2028
0	2.26
Pillar C – Strengthen disaster risk management and climate resilience	
Sectors with tailor-made early warnings to activate their preparedness and response plans (Number)	
Oct/2024	Dec/2028
0	4
Beneficiary households of the social cash transfer program (millions) (Number)	
Oct/2024	Dec/2028
1.30	1.50
➤ Of which female-headed households that received livelihood support through climate-smart productive inclusion interventions (Number)	
Oct/2024	Dec/2028
0	24,360
Commercial utilities with operation and maintenance cost coverage ratio equal to or higher than 85 percent (Number)	
Oct/2024	Dec/2028
2	5



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

I. COUNTRY CONTEXT AND OPERATION SUMMARY

- 1. Zambia is experiencing a devastating drought, the driest in 40 years, impacting livelihoods and economic output.** Only 31 percent of the 2.2 million hectares of planted maize was harvested (GRZ, 2024a). The drought has affected 9.8 million people, with 6.6 million facing severe food insecurity. Poverty had increased before the drought, from 57 percent in 2010 to 60 percent in 2022 (national poverty line), and the shock will likely worsen it further. Real GDP growth is projected to drop from an average of 5.6 percent between 2021-2023 to 1.2 percent in 2024.
- 2. The country's vulnerability to natural hazards and broader climate change impacts is high and will only increase, calling for strengthening disaster risk management (DRM).** With a highly variable climate, Zambia has faced more frequent and intense climatic extremes over recent decades. Ranked 132 out of 185 in the 2021 Notre Dame Global Adaptation Initiative Index for vulnerability, Zambia faces risks from floods and droughts, with droughts having a broader impact due to rainfed agriculture, rural food poverty, and reliance on hydropower. Rising temperatures, unpredictable rainfall, and limited technical and financial capacity heighten this vulnerability, emphasizing the need to enhance DRM systems to build climate resilience.
- 3. After nearly four years, Zambia is nearing the completion of its debt restructuring, but fiscal and debt pressures continue, exacerbated by climate-related shocks.** Through the G-20 Common Framework for Debt Treatments (from now on, "Common Framework"), the Government of the Republic of Zambia (GRZ) reached agreements with bilateral creditors in October 2023 and international bondholders in June 2024. Recent agreements in principle, announced with two major Chinese private creditors, mean that restructuring on 89 percent of the original debt to be treated has been agreed (Box 1). Despite these developments, Zambia will remain shut from international markets in the near term, and financing will be limited. Shocks like the current drought add spending pressures, with estimated financing needs to address the effects of the climate crisis exceeding US\$940 million (GRZ, 2024b). In this tight financial situation and with fiscal consolidation under an IMF program, improving fiscal management and resilience is essential, which includes thoroughly assessing credit risk for new financing to avoid the buildup of unsustainable liabilities.
- 4. Zambia has a window of opportunity to capitalize on its vast renewable and non-renewable natural resources through effective fiscal management.** The country is a carbon sink, with abundant land, water, and forest cover per capita (compared to countries across the region and the globe). It has rich mineral deposits that are in demand from the global energy transition. By reassessing its policies for managing these natural resources, Zambia can mobilize sizable domestic resource revenues while managing the volatility associated with mineral revenue and building fiscal buffers to enhance preparedness for future shocks. At the same time, the country could leverage considerable climate and private finance through carbon markets, generating additional revenue and foreign exchange flows for the government and supporting its global climate commitments.
- 5. The country's markets and physical infrastructure in enabling sectors are deficient and not climate-resilient, discouraging private sector investment and exacerbating vulnerabilities to shocks.** Zambia relies on hydropower for electricity generation, and under the ongoing drought, it is facing a power generation deficit surpassing 1,000MW, with load-shedding exceeding 20 hours per day (GRZ, 2024a). Drying water sources, decreasing groundwater availability, and power outages are severely impacting the supply and access to safe water for firms and households in affected areas. Huge infrastructure gaps discourage private sector development and constrain economic growth. At the same time, public capital expenditure is expected to remain low in the medium term, hovering around 3-4 percent of GDP due to fiscal constraints. Private investment showed a strong correlation with



economic growth in the past decade, and it will be essential to narrow infrastructure gaps that also enhance climate resilience.¹

6. The GRZ is strongly committed to structural reforms, but bold policy and institutional actions are needed to face these challenges. It has prioritized economic reforms to restore macroeconomic stability, spur economic growth, and reduce poverty. Years of unsustainable macroeconomic policies led Zambia to default on its external bonds in November 2020. Since the elections in 2021, the current administration launched an ambitious reform program, which turned the primary deficit into a surplus by 2023 and cut inflation by half. Moreover, it introduced bold measures to boost private investment and rebalance the composition of government spending by canceling non-performing investment projects and withdrawing state intervention from the energy sector. However, current shocks show that critical reforms are needed to support economic recovery and build resilience, including climate change.

7. The proposed Development Policy Financing (DPF) aims to support Zambia in increasing climate and economic resilience to natural disasters and other future shocks. It is the first of two operations in a programmatic series in the amount of US\$100 million comprising two instruments, US\$25 million as a regular DPF and US\$75 million as a Catastrophe Deferred Drawdown Option (Cat-DDO). The operation is part of the World Bank's continuous multi-sectoral support to help Zambia emerge from the debt crisis and shift to a more resilient, sustainable, and inclusive economic growth path. The Program Development Objective (PDO) will be achieved through reforms aimed at (i) enhancing fiscal management and resilience, (ii) promoting private-sector investment and resilience in enabling sectors, and (iii) strengthening disaster risk management and climate resilience. 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 debt restructuring under the Common Framework.

8. The proposed operation addresses some of the above-mentioned challenges by supporting critical reforms to increase climate and economic resilience to shocks, as well as providing financing to face ongoing fiscal pressures caused by the current devastating drought. Reforms aimed at strengthening mineral revenue management and building fiscal buffers, enhancing credit risk assessments when contracting sovereign loans and guarantees, and mobilizing carbon revenues will increase fiscal resilience and keep public debt on a sustainable path. Increasing private sector investments in growth-enabling sectors, including through Public-Private Partnerships (PPPs), will enhance household and firms' resilience to shocks, supporting job creation and economic transformation. Finally, strengthening the country's disaster risk management and social protection system, as well as promoting climate adaptation actions, including in the water sector, will reduce Zambia's climate vulnerabilities and protect the livelihoods of all Zambians. This DPF series also provides readily available grants in case of a future emergency through its Cat-DDO component.

9. The operation prioritizes the World Bank's value-added and is part of its ongoing partnership with the GRZ, assisting the country in responding to various shocks since 2020. As the largest provider of development financing to Zambia, the World Bank has committed over US\$2.1 billion through IDA since 2021 to support initiatives focusing on private sector development, job creation, inclusive service delivery, and sustainable, resilient growth. From July 2023 onward, all new World Bank funding to Zambia has been issued as grants to provide additional support amid debt distress and multiple external shocks. The World Bank's cumulative net positive flows have amounted to US\$1.2 billion since 2021. This operation aims to improve climate resilience and enhance energy and water connectivity, in line with the World Bank Group's new Country Partnership Framework for Zambia FY25-FY29 and regional priorities in Eastern and Southern Africa. It selectively advances fiscal resilience and

¹ IMF, 2023.



management reforms, complementing parallel budget support interventions from the African Development Bank and the European Union, as well as public financial management (PFM) reforms under the IMF program.

II. MACROECONOMIC POLICY FRAMEWORK

10. Zambia's macroeconomic policy framework, anchored to fiscal and monetary targets of the IMF's Extended Credit Facility (ECF) program, is deemed adequate for the proposed operation. The macroeconomic framework reflects a full post-debt restructuring baseline aligned with IMF program parameters under the fourth review of the ECF program and the Joint IMF-World Bank Debt Sustainability Analysis (DSA).² It captures the Memorandum of Understanding (MoU) agreed between the authorities and the official creditors in October 2023, delivering a 40 percent net present value reduction through delaying principal repayments and reducing interest charges. It also includes restructured bondholder debt and comparable treatment with Zambia's external private creditors. It is envisaged that the authorities will conclude debt restructuring negotiations with all creditors by year-end (Box 1). Zambia is no longer classified as in debt distress; its public debt is assessed as sustainable but remains at high risk of overall and external debt distress (Figure 1).

11. Concurrently, GRZ has pursued and implemented critical reforms, building a solid foundation for economic recovery and accelerated growth, and gaining creditors' trust.³ These reforms address previous macro-fiscal issues that led to external debt default during the unfolding of the global "polycrisis." Since 2021, the administration has canceled non-performing projects and withdrawn inefficient subsidies from the energy sector, steering fiscal space towards human development and social protection. Monetary policies aim to reduce inflation, and higher FDI are expected to stabilize the exchange rate. Finally, the authorities are overhauling business regulations to create a conducive environment for private investment and international competitiveness, including through critical reforms in enabling sectors supported by this operation.

Box 1: Zambia's progress on external debt restructuring under the Common Framework

Context: Zambia defaulted on its external non-multilateral debt in November 2020. In February 2021, the authorities requested debt relief under the G20 Common Framework beyond the Debt Service Suspension Initiative to address its unsustainable debt burden. While the restructuring process has been slow, significant progress has been made by October 2024.

Official Creditors Agreement. Zambia reached an agreement with its official creditors to restructure US\$6.3 billion in external bilateral debt. A memorandum of understanding (MOU) finalized in October 2023 has been signed by all creditors. Final implementation awaits the conclusion of bilateral agreements with each creditor. At the end of the ECF program, a one-time validation test will determine Zambia's Debt-Carrying Capacity (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. If Zambia's economic conditions improve and the DCC is upgraded from 'weak' to 'medium,' principal reimbursements would be accelerated by five years to 2038 while interest rates would be slightly higher (upside case treatment); otherwise, they would continue under the baseline scenario (base case treatment). Both cases are consistent with the joint IMF-World Bank Low-income Country Debt Sustainability Framework.

Eurobond holders. Zambia agreed with Eurobond holders on a debt restructuring deal compatible with the Official Creditors Committee (OCC) assessment on comparability of treatment and the IMF program parameters. On June 11,

² A Joint IMF-World Bank DSA update was approved in November 2024 and will be published when the IMF concludes the fourth review of Zambia's ECF program, which is expected in December 2024.

³ The African Development Bank 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.



Zambia successfully completed the mandatory exchange of its US\$3.0 billion outstanding Eurobonds with the issuance of two new notes, A and B, which commenced trading on the London Stock Exchange. The agreement to restructure the Eurobonds provides essential debt relief, including around US\$840 million in forgiven claims and approximately US\$2.5 billion offered in cash flow relief through reduced debt servicing payments during the IMF Program.

Commercial Creditors. Zambia has been negotiating in good faith with commercial creditors to finalize its debt treatments under the Common Framework. The government has announced it has concluded and executed agreements with Paramount and Huawei Technologies and reached agreements in principle with the Industrial Commercial Bank of China and China Development Bank for a total of US\$1.5 billion, about half of the outstanding amount being negotiated for all non-bonded commercial creditors. The authorities expect to conclude negotiations with the remaining commercial creditors by the end of 2024.

Debt treatment under the joint IMF-World Bank DSA. The total agreed debt restructuring now stands at 89 percent of the total debt in the restructuring perimeter. The latest DSA update as part of the fourth review of the IMF ECF program includes bondholder and other commercial creditors' debt in the baseline, previously included in the alternative scenario (Figure 1).

A. Recent Economic Developments

12. A severe El Niño drought, exacerbated by climate change, hit Zambia's economy in 2024 as it was still recovering from the COVID-19 pandemic. Due to the higher-than-anticipated impacts of the climate disaster on the economy—mainly on agriculture and hydropower generation but which spread across other sectors, real GDP growth projection for 2024 has been revised downward from 2.3 percent to 1.2 percent. During 2024H1, real GDP growth slowed to 2.0 percent year-on-year (y/y), from 4.3 percent in the same period in 2023. Growth in Q2 further decelerated to 1.7 percent from 4.0 percent in 2023Q2. However, the mining sector showed resilience, with copper production rising by 6.3 percent in 2024H1 and by 4.1 percent between January-September 2024 (y/y). This increase was driven by rising prices and advantageous open-pit mining conditions during the unusually rainy season; given its importance in the Zambian economy, the majority of GDP growth during Q2-24 was explained by mining.⁴

13. Despite monetary restraint, inflation has increased due to rising food prices and exchange rate depreciation. In October 2024, inflation continued its upward trend, reaching 15.7 percent (y/y), exceeding the Bank of Zambia's (BOZ) target range of 6 to 8 percent. Both food and non-food inflation have been increasing due to significant exchange rate depreciation and low food supply resulting from the drought. The BOZ has progressively tightened its monetary stance and raised its policy rate by 300 basis points in 2024 (Dec-23: 11.0 percent). In November, BOZ increased the policy rate by 50 basis points to 14 percent, considering the drought impacts as well as elevated actual and projected inflation.

14. The current account deficit (CAD) is closing in 2024 amid higher external financing from development partners and remittances. During 2023, the current account deteriorated and reached a US\$583 million deficit by the end of the year, largely due to lower copper earnings from weakening production, despite the return of non-traditional exports and tourism to pre-pandemic levels. However, since the beginning of 2024, a steep currency depreciation that temporarily suppressed imports, coupled with robust forex inflows from remittances and cooperating partners (budget support grants and concessional loans), and a recovery of the mining sector, shifted the current account to a surplus of 0.3 percent of GDP in 2024H1 from a deficit of 1.3 percent in 2023H1. External financing and FDI inflows, driven by strong investor confidence and interest in new projects, especially mining, mainly financed the current account. Gross international reserves increased to cover 4.3 months of imports in

⁴ The mining sector represents almost 80 percent of Zambia's export basket and around 15 percent of GDP.



September 2024 from 3.9 months in March, reflecting the frontloaded disbursement by the IMF under the augmented ECF program. However, the high import demand for maize and electricity in 2024 is creating foreign exchange pressures.

Table 1. Selected Economic Indicators

	2021	2022	2023e	2024p	2025p	2026p	2027p
Annual percentage change, unless otherwise indicated							
National accounts							
GDP at constant prices (%)	6.2	5.2	5.4	1.2	6.2	6.6	6.2
Consumption	6.0	5.6	5.7	1.8	7.3	6.0	6.0
Investment	5.4	4.5	5.3	0.8	7.5	7.0	7.0
Exports of goods and services	4.6	4.6	3.3	2.5	3.8	4.0	4.0
Imports of goods and services	2.5	4.0	4.5	2.3	5.2	4.0	4.0
Sectoral contribution to growth							
Agriculture (ppts)	0.5	-0.8	-1.0	-1.8	1.3	1.3	0.6
Industry (ppts)	2.2	-0.7	0.5	-0.5	1.0	1.1	1.4
Services (ppts)	3.4	6.6	5.9	3.5	3.9	4.2	4.2
Inflation							
GDP deflator	25.2	6.1	7.1	19.2	9.7	5.2	6.4
Consumer prices (average)	22.1	11.0	10.9	14.9	12.8	7.0	7.0
Selected monetary accounts							
Banks' credit to private sector	-7.8	34.2	41.3	29.5	31.7	25.2	15.1
Money supply (M3)	3.7	24.5	24.6	31.7	13.9	11.6	15.0
Percent of GDP, unless otherwise indicated							
External sector							
Exports fob	50.7	39.5	38.2	45.1	44.3	42.8	43.2
Imports fob	28.9	27.9	33.2	36.9	31.7	29.5	28.0
Terms of trade	22.5	-5.8	-13.6	6.9	1.8	0.5	-0.1
Current account balance (incl. grants)	11.9	3.8	-2.1	0.7	5.0	4.9	7.4
Foreign direct investment (net)	3.1	0.7	-0.1	3.7	3.7	4.5	4.3
Debt							
Public debt (external and domestic)	112.1	110.9	133.4	104.6	89.7	79.2	72.7
External debt	57.8	58.8	86.4	63.0	55.0	47.8	43.8
Domestic Debt	54.4	52.1	46.9	41.6	34.8	31.4	28.9
Fiscal accounts							
Total revenue and grants	22.4	20.4	21.9	22.1	22.6	22.4	22.3
Total expenditure and net lending	30.5	28.2	27.4	28.5	26.4	26.3	24.7
Overall fiscal balance (incl. grants)	-8.1	-7.8	-5.5	-6.4	-3.8	-3.9	-2.6
Memorandum items							
GDP per capita (% change)	3.3	2.3	2.6	-1.5	3.4	3.8	3.4
Gross reserves (US\$ millions, EOP)	2,796	3,054	3,328	4,333	5,503	5,757	6,631
In months of next year's imports)	3.3	3.4	3.5	4.5	5.3	5.2	5.6
Nominal GDP (billions of US\$)	22.1	29.1	27.6	25.9	30.7	35.1	39.6

Source: World Bank and IMF estimates.



Table 2. Key Fiscal Indicators (percent of GDP)

	2021	2022	2023e	2024p	2025p	2026p	2027p
Total revenue and grants	22.4	20.4	21.9	22.1	22.6	22.4	22.3
Tax revenue	16.1	16.1	16.6	16.5	16.9	17.3	17.2
Direct taxes	9.5	9.7	8.1	8.2	8.2	8.8	8.8
Indirect taxes							
Taxes on goods and services	5.4	5.3	7.4	7.1	7.5	7.4	7.3
Taxes on international trade	1.2	1.1	1.2	1.2	1.2	1.1	1.0
Non-tax revenue	5.7	3.9	4.2	4.5	4.7	4.7	4.8
Grants	0.6	0.4	1.1	1.1	1.0	0.5	0.3
Total expenditures	30.5	28.2	27.4	28.5	26.4	26.3	24.9
Current expenditures	26.6	24.8	24.8	25.6	23.2	23.1	21.7
Wages and salaries	7.2	7.6	8.1	7.8	7.5	7.4	7.4
Goods and services	3.4	2.6	2.3	1.5	2.9	3.3	3.2
Subsidies and transfers	7.5	5.3	6.1	6.9	5.7	5.7	4.4
Social protection	1.3	1.5	1.4	2.0	1.8	1.6	1.6
Interest on debt	6.1	6.2	6.1	6.9	5.7	5.7	4.4
Capital expenditure	3.9	3.4	2.6	2.9	3.2	3.2	3.2
Overall fiscal balance (incl. grants)	-8.1	-7.8	-5.5	-6.4	-3.8	-3.9	-2.6
Primary balance	-2.1	-1.6	0.6	0.5	1.9	1.8	1.7
Financing	8.1	7.8	5.5	6.4	3.8	3.9	2.6
Net acquisition of financial assets (+ drawdown, - accumulation)	-0.6	-0.3	0.1	0.2	0.0	0.0	0.0
Net incurrence of liabilities	8.7	8.2	5.5	6.2	3.8	3.9	2.6
Domestic (net)	7.4	2.6	1.6	3.3	1.9	3.1	3.2
External (net)	1.2	5.5	3.9	2.9	1.9	0.8	-0.5
Exceptional financing	0.0	7.5	7.8	2.9	2.2	1.5	1.3
Statistical discrepancy (overfinancing -/underfinancing +)	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0

Source: World Bank and IMF estimates.

15. The GRZ remains strongly committed to fiscal prudence in a context of higher spending needs to support Zambian citizens during the current drought. Recognizing the drought as a national disaster, the GRZ submitted a revised 2024 budget to Parliament in June in consultation with the IMF, which allowed a one-time primary fiscal deficit of 0.7 percent of GDP for 2024. This came with a reprioritization of spending towards critical livelihood support and a request for additional external financing to provide fiscal support in response to the drought. Despite uneven tax revenues, the primary fiscal balance at end-June posted a surplus of 3.4 percent of GDP. Lower mining sector taxes were offset by higher import taxes, central bank dividends, and other exceptional revenues. Tighter domestic financing conditions reduced public consumption and investment, supporting the primary surplus in 2024H1.

16. Zambia's external public and publicly guaranteed (PPG) debt rose to US\$21.7 billion by the end of 2023 (Table 3). This increase includes nearly US\$710 million in new foreign-currency-denominated debt from the IMF and World Bank and about US\$439 million in interest arrears on central government foreign-currency-denominated debt. Arrears owed to non-resident suppliers and the power utility's (ZESCO) arrears to external



independent power producers (IPPs) remained around US\$1.75 billion. Additional interest arrears of US\$90 million were accumulated on guaranteed external debt, but ZESCO fully amortized its non-guaranteed external debt with sufficient revenue. Consequently, external PPG debt increased by approximately US\$639 million by end-2023. However, non-resident holdings of domestic-currency debt fell to US\$2.2 billion due to exchange rate depreciation. Government securities stood at 42 percent of GDP (Table 3), but domestic debt decreased by 3.3 percent by end-September 2024 due to financing constraints.

17. The financial system has remained stable despite challenging domestic financial conditions and the adverse impact of the drought on credit quality. Though relatively small and concentrated among a few large banks, the financial sector remains well-capitalized, with most commercial banks exceeding the minimum regulatory requirements. However, private-sector credit growth has slowed (Table 1), which is further hampered by the crowding-out effect of government borrowing. The financial system still faces significant vulnerabilities due to persistent balance sheet imbalances, such as elevated exposure to government debt (21 percent of total assets), credit concentration, disproportionate dollarized loans and deposits, and maturity mismatches. In 2024H1, the demand for government securities ebbed, with net domestic financing turning negative primarily due to net amortizations of treasury bills. The BOZ issued a special bond in June 2024 to provide positive bond financing as commercial banks and non-resident holders reduced their participation in treasury securities due to tight financial conditions. However, since September, there are signs of normalization in treasury auction subscriptions, bolstered by improved liquidity, contributing to improved health in the banking sector.

Table 3. Public and Publicly Guaranteed Debt Stock – Creditor Composition and Contracted Debt Service (end-2023)

	Debt Stock (end of period)			Debt Service			
	2023			2024	2025	2024	2025
	in million US\$	Percent of Total debt	Percent of GDP	in million US\$		(percent of GDP)	
Total PPG debt	31,244	100	144.1	2,548	3,894	9.8	12.7
Domestic debt	11,854	37.9	54.7	1,808	3,405	7.0	11.1
Treasury bills	1,747	5.6	8.1	498	1,052	1.9	3.4
Treasury bonds	7,301	23.4	33.7	1311	2353	5.1	1.1
Others	2,806	9	12.9				
External debt	19,390	62.1	89.4	740	489	2.9	1.6
Multilateral creditors	4,151	13.3	19.1	154	165	0.6	0.5
Bilateral creditors	6,456	20.7	29.8	120	62	0.5	0.2
Paris Club	1,524	4.9	4.0	14	14	0.1	0
Non-Paris Club	4,932	15.8	22.8	106	48	0.4	0.2
Commercial creditors	7028	22.5	32.4	466	262	1.8	0.9
Memo items							
SOE guaranteed external debt	1,560	5.0	7.2				
External arrears	757	2.4	3.5				
Nominal GDP	27,578						

Source: World Bank and IMF estimates.



Table 4. External Financing Needs and Sources (in millions of US\$, unless otherwise indicated)

	2021	2022	2023	2024p	2025p	2026p	2027p
I. Total requirement	5,619	3,159	2,095	4,168	2,796	2,540	2,404
Current account deficit (excl. official transfers)	-2,630	-1,093	710	429	-738	-1,412	-2,690
Debt amortization	1,917	1,935	1,232	675	227	561	325
Gross reserve accumulation, incl SDR allocation	1,604	258	274	1,005	1,170	254	874
Other capital flows*	4,728	2,058	-121	2,059	2,137	3,137	3,895
II. Total sources	3,389	100	62	2,784	1,776	2,134	2,022
Official Transfers	77	76	78	1,635	467	234	211
BOZ Liabilities, incl. SDR allocation	1,328	0	0	0	0	0	0
Foreign direct investment, net	674	198	-31	969	1,145	1,567	1,707
Private sector loans, net	-263	-206	-435	-211	-250	-286	-322
Loan disbursements to public sector	571	364	296	426	412	443	249
Private capital flows, net	1,002	-332	155	-36	1	176	177
III. Financing gap (I–II)	2,230	3,059	2,033	1,384	1,020	406	382
IV. Expected sources of financing	2,230	3,059	2,033	1,384	1,020	406	382
Budget support	0	550	165	624	649	406	382
Exceptional financing (accumulation of arrears)	2,230	2,322	1,495	0	0	0	0
IMF ECF Arrangement	0	187	373	760	370	0	0

*Other capital flows: financial derivatives (net), errors and omissions, repayments to the Fund, and other sectors from the BoP.

Source: World Bank and IMF estimates.

B. Macroeconomic Outlook and Debt Sustainability

18. The Zambian economy is expected to recover after the climate shock, with real GDP growth rates projected to average 6.3 percent in 2025–27 (Table 1). The outlook assumes increased mining production, the effective implementation of reforms, restored debt sustainability, and normalized rainfall patterns, which will enhance electricity generation and increase agricultural production. By August 2024, Zambia had received mining investment pledges exceeding US\$7.7 billion on new and expansion projects.⁵ These developments are anticipated to bolster copper production towards the objective of reaching of 3 million tons annually, further supported by the robust global shift towards low-carbon energy and the recent overhaul of the mining fiscal regime.

19. Inflation is projected to average 8.9 percent during 2025–2027. The inflation outlook for 2024 has deteriorated, with pressures on food and energy from the drought expected to drive up average inflation from 10.9 percent in 2023 to 14.9 percent this year. However, inflation will gradually return to BOZ's target range in 2026 and 2027 as hydroelectric power generation resumes and the food supply recovers after the climate shock.

20. Zambia's external position is expected to strengthen as debt restructuring is finalized and exports improve. The current account balance is projected to turn into a surplus in 2024 and average 5.1 percent over the forecasted period as copper production, copper prices, and global demand increase. Higher economic growth rates and the recovery of internal demand should support increasing imports. Forex inflows are expected to increase further, bolstered by FDI and a decreasing risk premium once debt sustainability is restored.

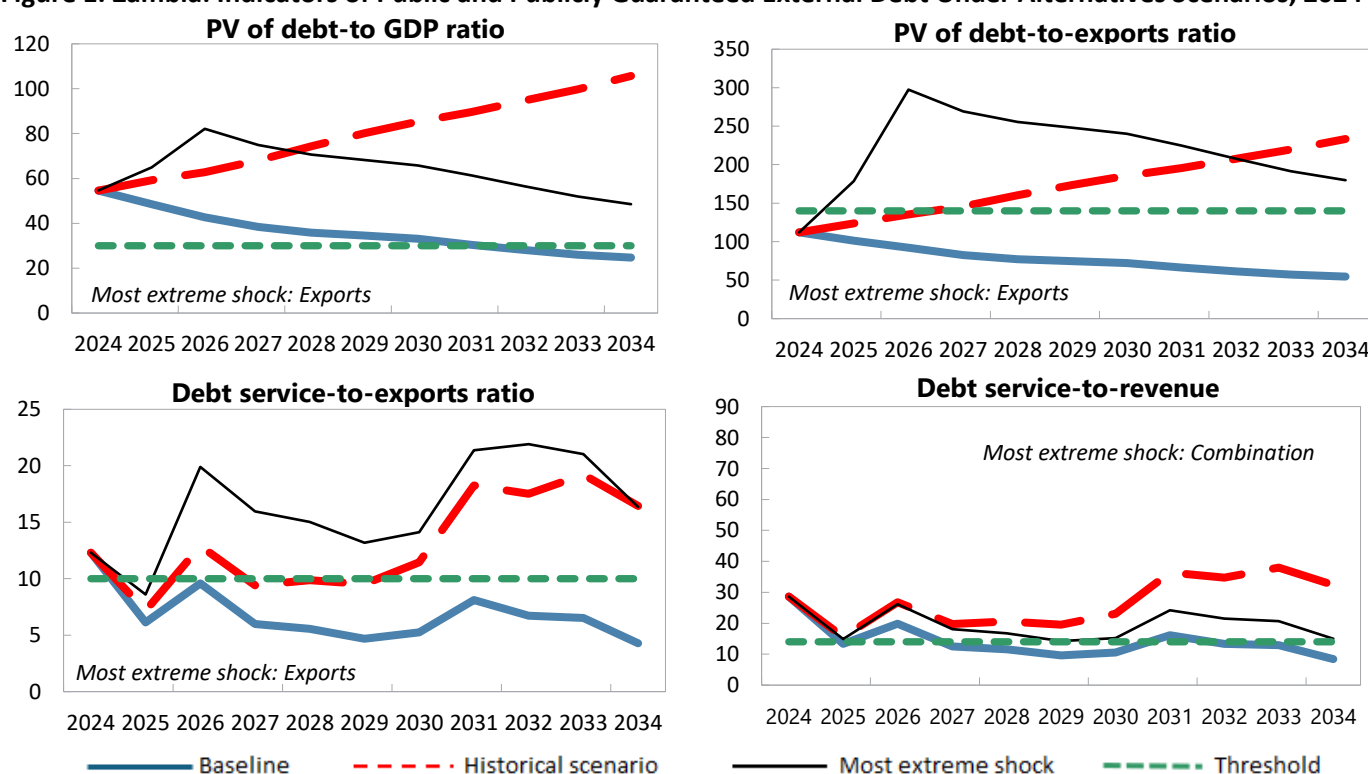
⁵ Source: Zambia Chamber of Mines.



21. **Fiscal balances are expected to strengthen in the medium term, supported by fiscal consolidation and growth rebound.** Following the trend in 2024H1, the primary balance is expected to reach 0.5 percent of GDP in 2024, against a deficit target of 0.7 percent under the IMF program. It is expected to average 1.8 percent of GDP in 2025-27 (Table 2), supported by commitments to fiscal consolidation under the IMF program. The 2025 budget includes revenue measures totaling 0.6 percent of GDP, including indexing excises with inflation, abstaining from tax exemptions, partially harmonizing corporate income tax rates, and additional revenues from collecting the excess compensation for transport costs to oil marketing companies that use the Tazama pipeline. The authorities are also committed to limiting administrative spending. The recovery in the mining sector is expected to boost mineral revenues over the medium term, complemented by reforms supported by this operation to manage mineral revenue volatility. Deficit financing comes mostly from external sources, and while total public debt is projected to reach 105 percent of GDP in 2024, it is expected to decline thereafter (Table 1, Figure 1).

22. **The macroeconomic outlook faces considerable risks.** Commodity price shocks may result in external and fiscal imbalances, potentially affecting investment levels given the importance of the mining sector for the Zambian economy. Domestically, lower mining production, ongoing climate-related shocks, and social discontent could also exacerbate macroeconomic imbalances and slow the implementation of reforms, risking the expected economic recovery. There are inflation risks driven by higher food and fuel prices due to load-shedding. Exchange rate pressures could intensify while domestic yields may increase, partly due to exiting non-resident domestic debt holders. Domestic market conditions, characterized by a narrow investor base and growing sovereign-bank exposure, could impact government financing and financial stability. Upside risks include higher copper prices and renewed mining investments, which might enhance confidence and support growth.

Figure 1. Zambia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2024–34



Source: Joint IMF–World Bank Debt Sustainability Analysis, November 2024.



23. Zambia's public debt is assessed as sustainable but remains at high risk of overall and external debt distress.

The November DSA baseline scenario includes official creditors' treated debt, the recent settlement on the Eurobonds, and the agreements in principle reached with some of the external commercial creditors. It assumes that remaining claims from other creditors will align with the authorities' restructuring strategy and are considered resolved for DSA purposes due to their minor share and ongoing good-faith negotiations. These measures are projected to yield favorable outcomes. Under the baseline scenario with weak debt-carrying capacity, the present value of the external debt-to-exports ratio is expected to fall below the 84 percent threshold for "substantial space to absorb shocks" by 2027. Additionally, the debt service-to-revenue ratio is anticipated to decline below 14 percent by 2025 and remain under this level, on average, through 2031. Despite a prolonged breach of the present value of PPG external debt-to-GDP ratio, averaging 36 percent until 2033, Zambia's debt indicators are projected to improve and reach the targets identified in Zambia's 2022 ECF Request as being consistent with achieving a moderate risk of external debt distress in the medium term. Completing debt treatments should help Zambia restore debt sustainability, reinforce macroeconomic stability, support ongoing economic reforms, and promote sustained and inclusive growth.

C. IMF Relations

24. The IMF is expected to conclude the fourth review of Zambia's ECF program in December 2024. In June 2024, the Fund's Executive Board approved the third review and an augmentation of the ECF, disbursing US\$569.6 million after noting satisfactory program performance in a challenging domestic and external environment (Annex 4). The Zambian authorities met all the quantitative criteria and all structural benchmarks except for one. The World Bank and IMF continue their close collaboration, coordinating policy dialogue, analysis, and technical assistance. The reforms proposed in this DPF complement and reinforce measures under the IMF program, with the latter focusing more on revenue mobilization, PFM, transparency, and financial stability. Both institutions emphasize supporting the authorities in building resilience to climate shocks and ensuring macroeconomic stability.

III. PROPOSED OPERATION

A. Link to Government Program, CPF, other WBG Operations, and Corporate Priorities

25. GRZ's DRM reforms are 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 prosperous middle-income country" by the end of this decade. Approved in April 2022, 8NDP aims to combat high public debt levels and a challenging economic situation while advancing economic transformation, job creation, and governance reforms, and environmental sustainability.⁶ 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 (GRZ, 2022). Besides, GRZ is committed to additional structural reforms as it finalizes the National Compact for Energy and its application to Compact with Africa.^{7,8}

26. In response to the ongoing drought, the GRZ prepared a multi-sectoral plan to address and mitigate its impacts, showing its firm commitment to climate action. The GRZ estimated financing needs of almost US\$1 billion until April 2025 to provide recovery assistance for the population and tackle the effects of the shock.

6 The 8NDP includes two development outcomes under the environmental sustainability pillar: i) enhanced mitigation and adaptation to climate change, and ii) sustainable environment and natural resources management.

7 The Compact for Energy is aligned with the Mission 300 initiative spearheaded by the World Bank and African Development Bank.

8 The G20 Compact with Africa was initiated under the German G20 Presidency to promote private investment in Africa, including in infrastructure.



27. **In 2010, Zambia approved the Disaster Management Act, establishing the Disaster Management and Mitigation Unit (DMMU) within the Office of the Vice President to coordinate national DRM activities.** The Act empowers the DMMU to develop disaster strategies, manage response operations, and coordinate rehabilitation efforts. The DMMU operates through a hierarchical structure, with the National Disaster Management Council at the top, chaired by the Vice President, and composed of cabinet ministers involved in DRM. This structure extends to local levels with Provincial, District, and Satellite Disaster Management Committees. The DMMU collaborates with NGOs and the private sector. Early warning and forecasting systems are supported by the Zambia Meteorological Department and the Water Resources Management Authority (WARMA). Emergency procurement provisions enable the DMMU to mobilize resources during crises, while the National Emergency Operations Center facilitates real-time monitoring and coordination. In 2021, Zambia created the Ministry of Green Economy and Environment to transition to a green growth pathway, and in 2023 approved a Green Finance Framework with green loan guidelines. However, challenges remain in local capacity, early warning integration, coordination, and early action, which this program aims to address.

28. **Zambia's public health emergency response system is led by the Zambia National Public Health Institute (ZNPHI).** Established in 2017 and legally formalized in 2020 under the Ministry of Health, the ZNPHI has enhanced its response capacity with assistance from various development partners including the World Bank. Despite improvements, challenges remain such as the limited number and capacity of human resources and laboratory systems. The World Bank has supported the ZNPHI through the COVID-19 Emergency Response and Health Systems Preparedness Project (P174185) and the Africa CDC Regional Investment Financing Project (P167916). Additionally, the Health Emergency Preparedness, Response, and Resilience Project using a Multiphase Programmatic Approach (P505188) was introduced in September 2024 to aid the Ministry of Health and ZNPHI in strengthening public health emergency preparedness and response at the primary healthcare level.

29. **The DPF supports Zambia in carrying out reforms aimed at increasing resilience to economic and climate shocks, while promoting private sector-led growth and providing financing for immediate and potential liquidity needs following disasters.** It aims to enhance the government's capability to address the effects of climate change and economic shocks and to improve fiscal resilience. The operation strengthens Zambia's DRM systems and enhances the resilience of households and the private sector to climate shocks, addressing critical gaps in the current institutional framework. Alongside the World Bank's ongoing efforts to support Zambia in emerging from the current catastrophic drought, this DPF series provides readily available financing in case of a future shock. It also aligns with the international commitment to help the country restore macroeconomic stability and debt sustainability under the Common Framework.

30. **The program is structured around three pillars and eight prior actions, fully aligned with the GRZ priorities.** Pillar A enhances fiscal management and resilience, creating buffers against economic and climate shocks and improving the sovereign credit risk assessment framework. Pillar B promotes private-sector investment and resilience in enabling sectors, bolstering private-sector participation in the transport, energy, and water sectors and reducing the financial impacts of future natural disasters in these sectors. Pillar C strengthens disaster risk management and climate resilience, improving the coordination and effectiveness of the GRZ in managing disasters, enhancing household resilience to climate shocks, and making water resource management more climate resilient.

31. **The proposed operation supports the CPF for Zambia for FY25-29 (Report No. CPF0000033) and WBG corporate priorities.**⁹ The DPF series contributes to achieving Zambia's CPF objective 1 (business environment for private investment), objective 2 (connectivity and increase energy access), objective 4 (targeting and effectiveness

⁹ The Zambia - Country Partnership Framework for the Period FY25-FY29 board meeting took place 2024-10-07.



of social protection), objective 5 (natural resources management and climate-smart agriculture), and objective 6 (climate risk management systems and financing). Moreover, it aligns with the institution's corporate priorities, including gender, climate, and enabling private capital.

32. This DPF is informed by and complements recent and ongoing projects, technical assistance, and analytics. Besides those discussed in Section III.B, Pillar A draws from the Zambia Second Macroeconomic Stability, Growth, and Competitiveness DPF (P181011). Pillar B is complemented by the Zambia Improved Rural Connectivity (P159330) and Scaling Solar Zambia (P157943). Pillar C is supported by the Second Additional Financing for Scaling-up Shock Responsive Social Protection Project (P181651), with US\$207.6 million to address the impacts of the ongoing drought. Finally, this operation incorporates the knowledge from implementing the last DPF operation, while conducting close consultations with stakeholders and development partners.¹⁰

33. This operation aligns with the WBG goal of Maximizing Finance for Development. Actions in Pillars A and B aim to enable private capital. Prior Action (PA) 3 supports the development of carbon markets by establishing the necessary regulatory infrastructure to improve access to finance, addressing a constraint in Zambia. PA4 enhances the regulatory environment of PPPs, promoting their use as an effective means for alternative infrastructure financing given limited public resources. PA5 aims to increase private sector participation in renewable energy, with the objective of measuring additional US\$ private sector investments at the operation's closing (R.I #5.1).

34. This operation aligns with the mitigation, adaptation, and resilience goals of the Paris Agreement. First, the economic reform program supported by the proposed DPF is consistent with Zambia's climate commitments, including the revised (2021) Nationally Determined Contribution (NDC), its National Adaptation Plan (2023), the climate objectives articulated in the 8NDP, and Green Growth Strategy 2024-2030 (GRZ, 2024c).¹¹ Second, no prior actions for the proposed DPF will 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. PA1, PA2, PA3, PA5, PA6, PA7, and PA8 are universally aligned, while PA4 is unlikely to generate significant GHG emissions and does not bias public or private investments toward GHG-emitting activities. Finally, all prior actions align with the adaptation and resilience goals of the Paris Agreement, and climate hazards are unlikely to undermine their contribution to the PDO.

35. The Cat DDO can be drawn once a “state of disaster” in case of adverse natural or public health-related events has been issued according to the process indicated in the Disaster Management Act of 2010. Withdrawal shall be made once the Recipient complies with the withdrawal tranche release conditions based on satisfactory evidence that (a) the President of the Recipient has declared a “State of Disaster” in accordance with Section 36 of the Disaster Management Act of 2010 or any other applicable law related to DRM agreed with the Association and in force in Zambia at the time;¹² and (b) there is an imminent or occurring (i) natural disaster as a result of natural geological phenomena, including but not limited to earthquakes, volcanoes, and landslides, hydro-meteorological phenomena such as floods, droughts, tropical cyclones, and El Niño/La Niña events, or (ii) public health emergency as a result of a plague or epidemic of disease that threatens the life or well-being of a community. The operation could be complemented with a Rapid Response Option (RRO), also part of the World Bank Crisis Response Toolkit.

¹⁰ World Bank, 2023.

¹¹ In 2016, Zambia submitted its NDCs which focused on three main programs, with pillars on sustainable forest management, sustainable agriculture, and renewable energy and energy efficiency. In its 2021 update, Zambia's NDCs broadened the scope of sectors under its mitigation actions and developed indicators that enable the country to track progress on building resilience in both human and physical systems and on adaptation actions (GRZ, 2021). Moreover, in 2023, the GRZ launched the National Adaptation Plan, which propose key climate adaptation actions in the agriculture, forestry, water, energy, tourism, infrastructure, mining, wildlife, and health (GRZ, 2023).

¹² Declarations remain in force for three months and may be extended. The 2024 drought was the first declaration since the approval of the Act.



B. Prior Actions, Triggers, Expected Results, and Analytical Underpinnings

Pillar A – Enhance fiscal management and resilience

Policy Area: Mineral revenue and fiscal buffers

DPF 1 Prior Action #1: To enhance fiscal resilience to disasters and other shocks and manage mineral revenue volatility, the Recipient, through its Ministry of Finance and National Planning, has submitted to Parliament a *National Budget Policy Statement* which *inter alia* provides that revenues derived from mineral royalty above the budgeted projections shall be channeled to a stabilization fund.

36. **Rationale:** Zambia faces significant fiscal risks that frequently strain budgetary resources, lacking contingency mechanisms to build fiscal buffers for managing disaster risks. During the recent drought, the government sought financing of almost 4 percent of GDP to provide essential aid. Mineral revenues, contributing 8.5 percent of GDP in 2022, are volatile and often lead to procyclical spending.¹³ With its vast endowments of copper and other critical minerals, the global energy transition provides Zambia with a unique opportunity to create fiscal space and enhance economic resilience by effectively managing these revenues. At the same time, Zambia’s State participation model, where the GRZ holds majority and minority stakes in various mining projects, has delivered weak profitability and low revenue generation. Dividend payments from minority-owned mining projects have been inconsistent and often lower than expected. Many projects, including some with high state ownership, have not paid dividends regularly or at all, impacting the government’s revenue planning and ability to build fiscal buffers.¹⁴

37. **Substance:** With support from this operation, GRZ has initiated a reform process seeking to strengthen its medium-term fiscal framework to manage mineral revenue volatility by building fiscal buffers over the economic cycle. For the first time, the authorities have submitted a budget to parliament with a budgetary rule for channeling any surplus from mineral royalties above the budgeted projections to a stabilization fund (PA#1).

38. The second operation targets operationalizing the stabilization fund by defining comprehensive fiscal rules consistent with countercyclical fiscal policy objectives and managing mineral revenue volatility. The authorities are also committed to establishing the governance arrangements for this fund and its investment strategy with rules-based, transparent, and predictable criteria concerning the flow of mineral revenues in and out of the budget (Trigger #1.1a).¹⁵ Finally, the second operation in the series plans to support a new Minerals Regulation Commission Bill, which defines a State-participation model in the mining sector with an adequate tax take while attracting private-sector investment (Trigger #1.1b).

39. **Expected results:** Reforms are expected to strengthen mineral revenue management and optimize the State participation in the mining sector. Once transparent deposit and withdrawal arrangements with fiscal rules are established for the stabilization fund, they are expected to outline which types of shocks could trigger withdrawals, including climate shocks, and the types of climate adaptation investments targeted. The reforms will underpin prudent fiscal policy in boom-bust cycles by allowing the building of fiscal buffers to support disaster response—including climate shocks—and climate adaptation. While there is robust reform commitment from the authorities, technical design risks associated with these reforms are substantial, requiring significant technical assistance. The

¹³ In general, fiscal policy is more volatile in commodity exporters relative to non-commodity exporters, particularly in emerging markets and developing economies. See Arroyo et. Al (2023) for cross-country results on fiscal policy volatility and World Bank (2024a) for Zambia’s specific case.

¹⁴ Zambia Energy Transitions Road Map - Leveraging Green Minerals for Economic Transformation PASA, forthcoming.

¹⁵ Stabilization funds vary in terms of objectives, governance, ownership structure, sources of funding, and withdrawal rules. For further information, see World Bank, 2019.



World Bank is exploring dedicated technical support to the mineral revenue management reforms, including with several development partners. Besides, the reforms are informed by analytics under the Zambia Energy Transitions Road Map - Leveraging Green Minerals for Economic Transformation.

Policy Area: Sovereign credit risks

DPF 1 Prior Action #2: To strengthen fiscal risk management of sovereign credit, the Recipient has, through its Ministry of Finance and National Planning, issued the *Public Debt Management (General) Regulations, 2024*, which establish a credit risk assessment framework for loans raised by a public body and guarantees issued by the Recipient.

40. **Rationale:** Zambia's debt management framework had weaknesses that led to risky borrowing and unsustainable debt levels. To address this, the GRZ enacted the Public Debt Management Act in 2022, which centralized borrowing authority under the finance minister, formalized the Debt Management Office's responsibilities, and required parliamentary approval for new borrowing. These reforms aimed to improve fiscal resilience and reduce public debt risks. However, the credit risk framework, critically, for borrowing public bodies outside the consolidated fund, including public corporations, remained underdeveloped. Meanwhile, fiscal risks related to state-owned enterprises (SOEs) reached an estimated annual average of almost US\$3 billion, 14.2 percent of GDP, over 2018-2020, mainly due to capital injections and government-guaranteed debt.¹⁶

41. **Substance:** Zambia has continued to enhance its debt and fiscal risk management framework by issuing regulations for the Public Debt Management Act. These regulations further define the mandate of the debt management office, entrusting it with developing and updating a credit risk assessment framework for new: (a) loans out of the Consolidated Fund, (b) guarantees, (c) and borrowings by any public body (including SOEs), including benchmarks for each of these financial transactions and requiring details on terms, conditions, and repayments. For loans that a public entity intends to raise from outside the Republic of Zambia, the debt management office must conduct a credit risk assessment within thirty days of receiving the external borrowing plan (PA#2).

42. The next operation will support specific credit risk assessment regulations and operationalize them through the new Debt Management Office. The regulations will focus on methodologies and governing arrangements for evaluating, issuing, and monitoring loans and sovereign guarantees, with objective criteria covering implicit and explicit contingent liabilities for the central government (Trigger #2.1).

43. **Expected results:** Improving the accountability and transparency of Zambia's debt management framework with enhanced credit risk assessments is expected to reduce the costs and risks of Zambia's public debt, keeping it sustainable after it has been restructured. The DPF-supported reforms will strengthen fiscal risk management through a rule-based decision process to evaluate requests for new loans and guarantees. They will reduce moral hazard related to explicit contingent liabilities. Technical assistance is expected to build capacity at the finance ministry to assess and quantify credit risks, including from SOEs. Complementary IMF and GIZ support contribute to achieving these results.

¹⁶ World Bank, 2024a.



Policy Area: Non-debt carbon revenues

DPF 1 Prior Action #3: To mobilize non-debt financing and generate carbon revenues to support resilient climate mitigation and adaptation investments, the Recipient has, through its Cabinet, submitted to Parliament the *Green Economy and Climate Change Bill, 2024*, which regulates the participation of project developers in carbon markets including *inter alia* the issuance of certificates of authorization to trade in carbon markets and registration of verifiers.

44. **Rationale:** Lack of access to finance constrains investments in climate action, including sustainable forest management, sustainable agriculture, renewable energy, and energy efficiency, all of which are mitigation commitments under Zambia's revised NDC. Carbon revenues could strengthen the financial viability of such activities by providing an additional revenue stream. Unlike debt financing, carbon revenues do not need to be repaid and simply bring in additional cash inflow to the underlying project, thereby improving its financial viability. Overall, carbon markets provide a payment against the transfer of emission reductions in the form of revenue inflows. However, accessing carbon markets requires a robust policy approach to ensure clarity and transparency for project developers, build capacity over time, and prevent participation in regulated markets under the Paris Agreement from adversely impacting the country's ability to meet its NDC. In addition, international carbon markets bring in foreign currency flows since buyers are often based in developed countries, adding another source of international reserve accumulation.

45. **Substance:** The Climate Change Bill is expected to increase transparency and trust in carbon markets by setting out the process for project developers to participate in markets. It provides a necessary signal for potential buyers of carbon credits from Zambia through the adoption of clear approval and authorization processes, creating the foundations for a planned approach to mobilize carbon revenues for climate action (PA#3).

46. The subsequent operation will target regulations setting out eligible activities for carbon markets, operationalizing the market infrastructure through a carbon credit registry system, and setting government fees on transactions (Trigger #3.1).

47. **Expected results:** Participation in carbon markets will enable Zambia to enhance fiscal resilience by generating revenue from carbon credit sales. At the same time, non-debt financing flows from carbon credit transactions will enhance climate resilience, strengthen Zambia's compliance with international climate commitments, build institutional capacity for climate-resilient development, and improve the financial viability of these markets. The additional revenues for climate mitigation activities will support reserve accumulation through forex inflows, contributing to exchange rate stability and reducing foreign-currency risks on the fiscal accounts. The reforms are supported by the regional Accelerating Sustainable and Clean Energy Access Transformation Using the Multiphase Programmatic Approach Project.

Pillar B – Promote private-sector investment and resilience in enabling sectors

Policy Area: Public-private partnerships in enabling sectors

DPF 1 Prior Action #4: To strengthen private sector participation in the development of a more resilient economy, the Recipient has, through its Ministry of Finance and National Planning, issued the *Public-Private Partnership (General) Regulations, 2024*, which *inter alia* prescribe project selection, procurement, and implementation rules including the incorporation of climate change practices in projects to ensure climate resilience and adaptability of infrastructure.

48. **Rationale:** Enhancing key infrastructure is a crucial objective of Zambia's 8NDP, aiming to alleviate poverty and strengthen the resilience of households and firms in response to the growing frequency and severity of natural disasters. However, substantial infrastructure deficits remain across enabling economic sectors such as transport, energy, and water and sanitation. Weak national and regional transport connectivity results in 75 percent of the



GDP being concentrated in the central corridor, with about one-third of the rural population residing more than two kilometers from an all-season road (RAI 2022). Zambia's electrification rate stands at 42 percent, which is below the Sub-Saharan Africa average of 47 percent and likely has worsened due to the current drought. According to the World Bank's Multidimensional Poverty Measure, Zambia ranked 11th highest globally in deprivation regarding access to electricity, 14th in access to drinking water, and 24th in access to sanitation (2022). In the current fiscally constrained environment, private investment is essential to bridging these gaps. Still, despite the adoption of a PPP policy and legal framework 15 years ago, the country has seen minimal success in mobilizing private capital to support public infrastructure projects.¹⁷

49. **Substance:** Strengthening the capacity of PPPs to be an alternative financing and project delivery mechanism is essential. With support from the previous DPF series and the SDFP (FY24), Zambia enacted a new Public Private Partnership Act (PPP) No. 18 of 2023, and adopted guidelines on fiscal commitment and contingent liabilities for PPPs.¹⁸ However, to effectively operationalize the Act, the authorities have issued PPP regulations prescribing administrative, procedural, and substantive rules on project selection—including environmental impacts and climate change practices to ensure climate resilience and adaptability of infrastructure—, and procurement for both solicited and unsolicited projects. Besides, the regulations mandate the assessment and approval of fiscal commitments and contingent liabilities, as well as efficient project management (PA#4).

50. Moreover, the second operation of this series will focus on deepening the PPP ecosystem through private capital-enabling interventions, focusing on three growth-enhancing sectors (Trigger #4.1). In the road sector, the authorities plan to develop a toll policy that provides adequate protection mechanisms to the private sector from the risk of low traffic flows. In the power sector, the Ministry of Energy intends to develop regulations for standardizing the bundling of mini-grids, supporting the pivot to non-hydro renewable energy (along with reform measures under PA#5). And in the water sector, the authorities expect to issue specific water sector PPP guidelines to help unlock much-needed investments (in conjunction with complementary tariff reforms supported under PA#8). The PPP reforms are taking place alongside SOE reforms, which seek to create a level-playing field for the private sector, repurposing SOEs to fill critical market gaps where the private sector is absent or inefficient.¹⁹ The planned SOE reforms are expected to enhance Zambia's business environment and further develop its PPP ecosystem.

51. **Expected results:** The proposed reforms are expected to make PPP contracts in enabling sectors more transparent, accountable, and sustainable. The regulations will ensure that only high-quality, affordable, value-for-money, and climate-responsive PPP project proposals are selected for implementation. With the conclusion of external debt restructuring in sight, Zambia is already attracting significant interest as an emerging market destination in Africa. The country's much-talked-about energy transition minerals can support regional and local development by leveraging mining company social investments through PPPs in partnership with the state and local communities.²⁰ The supported PPP measures are expected to enable private capital and support closing the infrastructure gap that Zambia experiences, in addition to enhancing fiscal sustainability. Moreover, as the authorities implement the Green Growth Strategy, the reforms will lead to drought-resilient energy and water investments and flood-resistant road infrastructure, which will further increase firms' and households' resilience to natural disasters and support economic growth. The reforms are complemented by technical assistance under

¹⁷ World Bank, 2024b.

¹⁸ See: World Bank, 2023.

¹⁹ SOE reforms are supported under IDA's Sustainable Development Financing Policy.

²⁰ This approach can pave the way for emerging non-mining development opportunities (Zambia Energy Transitions Road Map - Leveraging Green Minerals for Economic Transformation PASA). For instance, the financing is supporting an agribusiness project with around US\$100 million along the mining railroad corridor.



the Transport Regional Corridors for Economic Resilience (P180801) and the Zambia/Tanzania Interconnector (P507033).

Policy Area: Climate-resilient energy investments

DPF 1 Prior Action #5: To promote renewable energy generation and private investments in the sector, the Recipient has, through its Ministry of Energy, issued (i) Electricity (Open Access) Regulations, which grant independent power producers open access to the transmission and distribution system; and ii) Electricity (Net Metering) Regulations, which permit consumers to generate renewable energy and receive credits for the surplus electricity fed back into the grid.

52. **Rationale:** Despite the mid-90s liberalization, Zambia's electricity market remained a single-buyer model, controlled by ZESCO until recently, limiting private sector participation and affecting the financial sustainability of the whole system.²¹ Despite having an installed capacity of 3,812 MW, power shortages persist due to over-reliance on hydropower, which represents over 80 percent of the energy mix. The 2024 Integrated Resource Plan (IRP) highlights that climate change worsens this issue, causing severe droughts and extensive load shedding (GRZ,2024d). The Kariba Dam, producing 40 percent of the nation's electricity, has significantly suffered during the current drought, leading to a generation shortfall exceeding 1,000 MW and load-shedding over 20 hours daily. Financially strained ZESCO cannot invest in infrastructure and lacks creditworthiness. While the IRP projects a reduced reliance on hydropower by 2050 (36 percent of capacity), the risk of power outages remains high, affecting economic growth and diversification. A rapid expansion of power generation through other renewable sources and increasing investments from the private sector by improving the enabling environment and developing electricity markets is vital to solve these constraints.

53. **Substance:** To tackle these challenges, the government is focusing on drawing in private sector investments across all segments of the electricity market. Hence, it has adopted Electricity Open Access regulations, aligned with the Energy Policy and Energy Act of 2019, to create a more responsive and resilient power sector. These enable IPPs to import, generate, and sell electricity directly to local consumers or export it internationally, bypassing ZESCO as an off-taker. As the regulations are implemented, they must align with IRP targets, which focus on expanding renewable energy, including solar and wind. Additionally, new Net Metering regulations allow consumers to generate their own renewable energy and receive credits for the surplus electricity they add to the grid (PA#5), alleviating the electricity generation deficit.

54. The second operation includes measures to further increase private sector investment in renewable energy by establishing a competitive procurement policy and framework for private sector investments. The framework will create a level-playing field through predictable and transparent processes for IPPs to invest in Zambia and benefit from the Open Access regulations. At the same time, the second operation plans to enhance the resilience of power generation through regulations defining climate resilience standards for the hydro generation system. The regulations will specify the process to be followed during power generation planning to comply with such standards for regular updates of the IRP and be integrated into the competitive procurement policy and framework (Indicative Trigger #5.1).

55. **Expected results:** The reforms will unlock additional non-hydro renewable energy investments by the private sector in the electricity generation mix, adding significant power capacity to the grid and improving the sector's climate resilience. They will set the foundations for complementary reforms, including establishing an independent power systems operator and a transmission pricing methodology that would ensure open grid access for all market participants. Besides, the supported reforms help overcome binding constraints in the energy sector to maximize

21 World Bank, 2024b.



Zambia's Energy Transition Minerals potential, supporting the global energy transition. Finally, the reforms will also contribute to reducing the share of carbon-emitting resources from the current 12 percent to 10 percent by 2030 and enhance energy security and sustainability in Zambia. Reforms are supported by several ongoing World Bank financed projects including the National Energy Advancement and Transformation (P179380), Accelerating Sustainable and Clean Energy Access Transformation (P180547), and Scaling Solar Zambia (P157943).

Pillar C – Strengthen disaster risk management and climate resilience

Policy Area: Disaster risk management

DPF 1 Prior Action #6: To improve disaster risk reduction, preparedness, and response, the Recipient has, through its Cabinet, approved the *Disaster Risk Management Policy, 2024*, which *inter alia* establishes a multi-hazard early warning system tailored to priority sectors.

56. **Rationale:** Zambia's vulnerability to natural disasters, mainly floods and droughts, has historically been addressed through reactive disaster management strategies led by a DRM institutional framework with limited capacity and resources. For example, the absence of systematic issuing of multi-hazard early warnings and of sectoral and territorial preparedness and response operational strategies worsened the impact of an anticipated El Niño drought. As global and regional best practices have evolved, there is a recognized need to shift towards more proactive approaches and mainstreaming DRM at sectoral and territorial levels.

57. **Substance:** The GRZ has approved an updated DRM policy that reflects this shift from a focus on disaster response with policy objectives to a more proactive and preventive approach, including risk reduction, early warning, early action, disaster preparedness and response, sectoral and territorial DRM mainstreaming, and institutional coordination (PA#6). This comprehensive and ambitious policy is expected to be implemented with complementary strategies, recognizing that impacts such as agricultural losses, power cuts, and public services disruptions require multi-sector early action and response. A critical line of work will be on preparedness and response by strengthening the accuracy and opportunity of early warning and response capacity, including early response for slow onset anticipated disasters such as droughts. The Policy will facilitate effective early action by enabling the generation of tailored early warnings linked to early response plans in critical sectors.

58. The indicative trigger for the subsequent operation will be updating the DRM Act, which will further detail the policy by establishing specific rights, obligations, rules, and penalties, as well as detailing institutional mandates for effectively managing disaster risks (Trigger #6.1).²²

59. **Expected results:** Systematic multi-hazard early warnings will help central governments, sectors, and local authorities anticipate, prepare for, and respond to disasters more effectively, reducing impact and speeding recovery. Tailored warnings will be provided to key sectors like agriculture, energy, social security, and water, as well as communities and local authorities. Sectors and local authorities will develop preparedness and response strategies and action plans to fully utilize timely early warnings, ultimately mitigating disaster impacts and protecting lives, property, and the economy. The reforms will be supported with planned World Bank Technical Assistance.

²² The team will benefit from the Climate and Disaster Risk Finance (CDRF) diagnostic, currently under preparation by the World Bank team.



Policy Area: Climate-resilient households

DPF 1 Prior Action #7: To strengthen the climate resilience of the social protection system, the Recipient has, through its Cabinet, approved the *2024 National Social Protection Policy*, which inter alia mainstreams resilience and preparedness of poor and vulnerable households, especially women, against the impacts of climate shocks.

60. **Rationale:** Zambia faces multiple and usually compounding shocks, ranging from climate-related events to economic disruptions, which impact long-term welfare and human capital, hindering efforts to reduce poverty and inequality. The ongoing extreme drought is expected to worsen malnutrition rates, given reduced food availability, and reverse human capital gains. Poor and vulnerable households, particularly female-headed ones, are disproportionately affected by recurrent climatic and economic shocks, with women and girls most vulnerable. Female-headed households experience higher poverty rates (63.4 percent) than male-headed ones (58.8 percent). At the same time, women also face greater difficulty accessing credit, limiting their recovery ability. Although Zambia has improved social protection programs' coverage and emergency responsiveness, the system needs to be more adaptable, scalable, and sustainable due to the increased frequency and intensity of climate shocks.²³

61. **Substance:** With support from this operation, the GRZ has updated its National Social Protection Policy, along with an implementation plan. They set the vision and objectives of the social protection programs to strengthen the resilience and preparedness of poor and vulnerable households, especially women, against the impacts of climate shocks. The updated National Social Protection Policy: (a) shifts to a lifecycle approach in social protection provision through cash 'plus' interventions, focused on economic inclusion, human capital, and climate adaptation, specifically by integrating nutrition in social assistance programs, supporting women's livelihoods;²⁴ (b) improves shock-responsive social protection systems by mainstreaming climate resilience in social protection programming, enhancing capacity, and ensuring institutional arrangements and financing; (c) strengthens institutional frameworks and digitalization to enhance the adaptivity and scalability for service delivery; and (d) enhances sustained financing of social protection programs to expand their reach to vulnerable and impoverished populations in response to climate events and lead to climate-smart graduation pathways for sustainable exiting poverty (PA#7).

62. In the next operation of the series, the GRZ will develop the governance structure, hosting arrangements, and data-sharing measures for the social registry. These measures will allow the social registry to more accurately identify and assist poor and vulnerable people affected by climatic shocks, including slow-onset impacts such as droughts. The reforms are critical considering the increased frequency of climate-induced shocks in an economy that is poorly diversified and heavily reliant on mining. The interoperable social registry will ensure timely, effective, cost-efficient, and accountable delivery of emergency cash transfers through digital payment for disaster response (Indicative Trigger #7.1).

63. **Expected results:** Expected results: The social protection reforms will expand the Social Cash Transfer (SCT) program from 1.3 million to 1.5 million households, adding 110,000 female-headed households. Over 24,000 of these women, who rely on agriculture, will receive climate-smart support, including business capital, skills training, mentorship, and savings groups. This integrated approach aims to boost climate resilience, reduce climate-related poverty and inequality, and promote inclusive, sustainable development. The reforms are informed and

²³ For additional information on Zambia's HH vulnerabilities to shocks, see Farfan, G. et al., 2024.

²⁴ Cash plus interventions combine regular cash transfers with other services to boost poverty reduction and human capital which increases the capacity of beneficiaries to cope with and recover from climate impacts. The SCT program serves as a foundation for adding measures aimed at economic inclusion, human capital, gender equity, and climate adaptation, aiding in livelihood diversification and resilience to climate shocks.



complemented by the Girls Education and Women's Empowerment and Livelihoods for Human Capital (P181391) and Scaling Up Shock Responsive Social Protection (P181651, P181711) projects.

Policy Area: Climate-resilient water supply

DPF 1 Prior Action #8: To secure climate-resilient water storage and supply, the Recipient has, through its Ministry of Water Development and Sanitation, issued the *Water Resources Management (Water Storage and Harvesting) Regulations, 2024*, which *inter alia* (i) set out procedures for the construction, maintenance and operation of water harvesting and storage infrastructure; and (ii) embed strategic water emergency interventions including drought response planning, and water supply and demand management in the implementation water harvesting and storage.

64. **Rationale:** Climate and disaster risks in Zambia's water sector are significant, highlighted by the 2024 El Niño-related drought. As of 2020, only two-thirds of Zambians had access to basic water services, and approximately half had access to basic or limited sanitation. The sector faces challenges with weak water management, inadequate harvesting practices, and the financial instability of water service providers. While dams and water harvesting structures are crucial for mitigating climate shocks by harnessing floodwaters and providing storage during dry spells, inadequate ownership and unclear legal frameworks hinder their design, operation, and safety for multi-purpose use. The Water Resources Management Act of 2011 (Part II, Section 6) prioritizes water use for domestic water supply. Although the supply for domestic purposes is legally ensured, various institutional and regulatory challenges impede its delivery, including the technical and financial capacity of commercial water supply utilities. Deficient water storage increases operational costs for commercial utilities, reducing their revenues and affecting their financial viability. Additionally, stagnant and below-cost-recovery tariffs since 2019, along with confusion over tariff-setting authority, exacerbate these issues.²⁵ This situation has led to operational and service problems, increased operational costs, delayed investments, discouraged private sector participation, and threatens the stability of the entire water sector.

65. **Substance:** Upstream, the proposed reforms enhance the legal framework and oversight of small dams and water harvesting structures through specific regulations (statutory instrument, PA#8). These rules delineate stakeholder roles in planning, developing, and operating these structures, ensuring effective management of stream flows and safety to meet water demand and control floods and droughts. This will secure water storage infrastructure and reduce losses and inefficiencies for multiple water users, including water utilities, to manage operations better, thereby improving financial performance.

66. Downstream, the next operation seeks to address critical bottlenecks hampering the O&M of water supply services, by introducing efficient, and cost-reflective tariffs that can enable commercial utilities to better manage their water infrastructure and expand their service delivery. The reforms plan to amend the Water Supply and Sanitation Act with principles, criteria, and procedures to define a new water tariff structure. They will clarify the role and autonomy of the regulator, the National Water and Sanitation Council (NWASCO), for developing tariff-setting guidelines, vetting tariff applications and making subsequent approvals (Trigger #8.1).

67. **Expected results:** The reforms aim to enhance water security for various uses, including drought and flood management, by improving water storage infrastructure. Better management and cost-reflective tariffs will help utilities recover costs and increase revenue, ensuring financial sustainability for domestic water supply. This will enable climate-resilient maintenance and upgrading of assets, reducing climate vulnerabilities. The reforms are expected to lower greenhouse gas emissions by promoting energy-efficient systems, reducing non-revenue water, and decreasing household reliance on charcoal. The goal is wider and more inclusive access to water supply and

²⁵ Source: World Bank, 2020.



sanitation services, supporting economic development. The Water Supply and Sanitation Services in Growth Centers Program for Results (P179237) will help achieve these outcomes.

C. Consultations and Collaboration with Development Partners

68. **Consultations.** The Zambian authorities actively engage domestic stakeholders in the reforms supported by this operation. Any decisions taken by the Cabinet must undergo stakeholder consultation. Notably, the draft Climate Change Bill (PA#3) went through extensive stakeholder consultations led by the Ministry of Green Economy and Environment and revised by the Ministry of Justice. Similarly, consultations with different government agencies, including the Ministry of Energy and Ministry of Water Development, informed the draft legislations, regulations, and other reform measures supported by the proposed operation. The Ministry of Finance and National Planning (MOFNP) has been engaging the public on debt restructuring negotiations and the medium-term fiscal stance. The President, Cabinet Ministers, and senior GRZ officials have also engaged the public on the broader reform program supported by the World Bank, IMF, and other development partners.

69. **Collaboration with other development partners.** The proposed operation is part of a program of coordinated reform dialogue with other bilateral and multilateral partners, including complementary budget support operations from the European Union and the African Development Bank. The World Bank is an active member of the PFM Donor Group and Cooperating Partners Group, comprising bilateral and multilateral development partners. The World Bank has collaborated with members of these groups on reforms supported by the DPF series, including the IMF.

IV. OTHER DESIGN AND APPRAISAL ISSUES

A. Poverty and Social Impacts

70. **This operation aims to reduce poverty vulnerability in Zambia, worsened by climate and economic shocks that harm food security, services, human capital, and assets.** In 2021, 27 percent of the population faced high climate-related risks, affecting over 5 million people. Severe food insecurity averaged 32 percent from 2020-22. Droughts have led to lower yields, earnings, and increased poverty.²⁶ Pillars C and A enhance the government's crisis response by improving preparedness (PA#6, PA#7, PA#8) and safeguarding pro-poor spending (PA#1). The SCT program - which more than doubled its caseload since 2020 and reaches 1.3 million households in 2023 - was crucial for distributing emergency cash assistance during the 2024 drought. This expansion provides lifesaving support and will help avoid the adoption of harmful coping strategies that result in long-term human capital losses.²⁷ Updating the DRM (PA#6) and National Social Protection (PA#7) Policies will bolster future shock responses, supported by a resilient fiscal system under Pillar A.

71. **Pillar B is critical to unlocking private sector growth, which is expected to deliver medium-term positive poverty and social impacts through higher earnings and employment opportunities.** Addressing energy gaps relies on off-grid technologies, demanding significant private-sector involvement (PA#5). From 2015 to 2022, rural grid connections were largely absent, but the use of solar and biofuel for lighting increased from 6 to 25 percent among the rural poor and from 18 to 39 percent among the rural non-poor (LCMS 2015 & LCMS 2022). At the same time, balancing economic and social returns through PPPs will require careful management (PA#4), and implementing changes may incur negative transition costs that can be mitigated with appropriate social protection tools. PPPs in the water sector have improved access and reduced child mortality,²⁸ but overall, PPPs must align

²⁶ Thurlow et al., 2012; Alfani et al. 2019; Al Mamen et al., 2018.

²⁷ Supported under the Second Additional Financing for Scaling-up Shock Responsive Social Protection Project (P181711)

²⁸ Kosec, 2014; Galiani, Gertler and Scharfrodsky, 2005.



with government poverty reduction strategies to ensure social benefits.²⁹ Services will likely become more expensive as cost recovery might offset efficiencies gained from private provision. In the transport sector, evidence of efficiency gains is inconclusive.³⁰ It is essential to monitor the social acceptance of private arrangements as the increased cost and potential decline in access may generate discontent, particularly among the middle class. Detailed analysis in the second phase of the program is necessary to evaluate the impacts of new water tariffs and toll policies (PA#4, PA#8), shaping a suitable mitigation strategy with the SCT as the foundational infrastructure.

B. Environmental, Forests, and other Natural Resources Aspects

72. The prior actions do not present significant environmental risks due to national legislation that requires environmental assessments for infrastructure projects. These assessments are enforced through the Environmental Management Act No. 12 of 2011 and the Environmental Impact Assessment Regulations SI No. 28 of 1997 by the Zambia Environmental Management Agency (ZEMA). The legislation mandates all developments to undergo an environmental impact assessment, with an Environmental Project Brief (EPB) or Environmental Impact Statement report submitted to the Agency for consideration. ZEMA conducts due diligence on the proposed development as part of the project approval process before issuing a Decision Letter. Commencing project implementation without conducting an EIA results in liability for an offense amounting to K210 thousand or five years of imprisonment, or both. Reforms in Pillar A aim to enhance the economic and fiscal resilience of public finances by reducing budget volatility and mitigating environmental risks posed by shocks, due to the increased fiscal capacity of the GRZ to respond. Additionally, reforms in Pillar C will reduce Zambia's climate vulnerabilities through a stronger DRM framework, support households in the event of climate shocks, and make water resource management more climate resilient.

73. The net metering regulations could negatively impact the environment over the longer term; however, electronic waste management regulations can support mitigation if approved and properly implemented. PA#5 will boost demand for solar energy systems, leading to more imports of panels and batteries. While this may not directly affect the environment, it could cause pollution when these systems become hazardous waste. Current hazardous waste management regulations mitigate these negative indirect effects. However, to complement these regulations, it is recommended that more robust e-waste management regulations under consultation be approved. These new policies promote proper e-waste management, protecting human health and the environment while ensuring compliance with best practices.³¹ Although the country lacks sufficient e-waste infrastructure and expertise, the Africa Environmental Health and Pollution Management Program (AEHPMP) is addressing this.³² Finally, the approved solar photovoltaic modules, energy storage, and inverters for net metering specify high-efficiency, long-life systems that will reduce e-waste generation and pollution.

74. Measures under the water harvesting regulations (PA#8) will help mitigate potential negative environmental effects. Negative impacts may arise during construction, operation, and decommissioning of water projects, including vegetation loss, ecosystem disruption, land degradation, and occupational health risks. In this case, the environmental analysis carried out for the DPO found that the measures included in this prior action would help mitigate the associated risks. The Statutory Instrument (SI) complements the Environmental Management Act No. 12 of 2011 and Environmental Impact Assessment (EIA) SI No. 28 of 1997, requiring EIAs for

29 In some cases, difficulty in enforcing distributional and social concerns through contractual arrangements has favored a move toward public provision (Troesken, 2001; Masten, 2011)

30 Fabre and Straub, 2023.

31 Among others, the regulations stipulate that any individual or entity that intends to engage in activities involving e-waste - including generation, collection, export, storage, transportation, refurbishment, recycling, dismantling, import, or disposal - must comply with certain obligations and obtain an e-waste management license.

32 It supports the e-waste management regulations and capacity building of the e-waste recycling companies performing basic recycling activities.



projects with potential adverse impacts, approved by the Zambia Environmental Management Agency. Applicants must obtain permits per EIA regulations and prepare a decommissioning plan to reduce environmental impacts. Occupational safety risks can be mitigated through proper enforcement and monitoring.

C. PFM, Disbursement, and Auditing Aspects

75. The authorities are improving fiduciary, procurement, and budgeting. While there has been progress in tax administration, budgeting, treasury, and cash management reforms, challenges remain in internal controls and financial reporting. Zambia ranks well in public finance transparency, fiscal strategy, budgeting, and audit scrutiny, with improvements noted in the 2016 PEFA compared to 2012.

76. GRZ has embarked on several procurement reforms and has a comprehensive public procurement legal and regulatory framework. It consists of the Public Procurement Act No. 8 of 2020 (as amended) supplemented by the Public Procurement Regulations of 2022, and covers most aspects of a well-functioning public procurement system. Through its Procurement Act, it has established the Zambia Public Procurement Authority (ZPPA) as an independent regulatory body with monitoring and oversight functions. ZPPA has extended the usage of the e-GP system, as the 2020 Act and 2022 regulations mandate the use of the e-GP system in processing public procurement. The World Bank is engaged with GRZ in: (i) the implementation and systematic monitoring of procurement performance and outcomes, (ii) improving efficiency in public investment management, and (iii) developing inclusive, accessible, and efficient administrative processes by streamlining bureaucratic procedures and approval processes, reduce processing times.

77. MOFNP timely publishes the annual budget on its website.³³ It publishes a green paper summarizing the proposed medium-term budget plan and annual national budget a month 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 national budget.

78. 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 and other development partners, are addressing these challenges, especially those that have led to the accumulation of arrears.

79. Disbursements will follow the World Bank's procedures for DPF. The single tranche DPF for US\$25 million will be disbursed once the operation is approved, and the Financing Agreement has become effective. The grant proceeds will be made available to the Recipient upon fulfilling the withdrawal tranche release condition to be indicated in the Financing Agreement. The DPF proceeds from the World Bank will be transferred to a US\$ BOZ account that forms part of the foreign exchange reserves. The Recipient is expected to report to the IDA within 30 days after the withdrawal of the financing on (i) the exact sum received into the US\$ BOZ account, (ii) the details of the account to which the Kwacha equivalent of the financing proceeds will be credited, (iii) the record that an equivalent amount has been accounted for in the Recipient's budget management systems, and (iv) the statement of receipts and disbursement of the foreign reserve account. Disbursements of the credit will not be linked to any specific purchases, and no procurement requirements must be satisfied.

80. The Cat-DDO disbursement with a proposed amount of US\$75 million will be made available once the drawdown conditions have been fulfilled. Access to the Cat-DDO will be provided once the Government of Zambia makes a national declaration of a "state of disaster" arising from a catastrophe.

³³ Annual budgets since 2007 are available at the Ministry of Finance and National Planning website.



81. The central bank undertakes to maintain a flexible exchange rate as a primary shock absorber while mitigating excessive volatility and accumulating international reserves. Currently, there are no foreign currency restrictions in the market. In May 2024, forex market guidelines were issued to enhance the transparency, efficiency, and effectiveness of the forex market. In addition, revised rules for the Interbank Foreign Exchange Market were issued in June to better promote price discovery. The World Bank reviewed BOZ's published audited financial statements for the year ended 31 December 2023. They were prepared in accordance with the International Financial Reporting Standards and the BOZ Act No.5 of 2022. The external auditor's opinion on the audited financial statements was unmodified, and the audit report did not reveal any significant issues related to the internal control environment.

D. Monitoring, Evaluation, and Accountability

82. 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 MOFNP, Office of the Vice President (DMMU), Ministry of Community Development and Social Services, Ministry of Energy, Ministry of Green Economy and Environment, Ministry of Justice, and Ministry of Water Development and Sanitation. MOFNP chairs the multi-sector coordinating committee established to oversee the preparation of budget support operations. This committee will remain in place during the program's implementation and monitor results indicators and evaluation activities.

83. 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 published information by the government. For 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.

84. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project-affected communities and individuals may submit their complaints to the Bank's independent Accountability Mechanism. The Accountability Mechanism houses the Inspection Panel, which determines whether harm occurred or could occur as a result of the Bank's non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank Management has been given an opportunity to respond. 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>.

V. SUMMARY OF RISKS AND MITIGATION

85. The overall residual risk rating for the operation is substantial. Table 5 presents the residual risk ratings by category. Macroeconomic risks are rated as high, while the categories of political and governance, technical design of the program, and institutional capacity for implementation and sustainability are rated as substantial risks to achieving the PDO.



86. **Political and governance risk is substantial.** Resistance from vested interests or reform fatigue could slow the implementation of the GRZ's reform program or weaken its commitment to fiscal restraint. Increased transparency—of market mechanisms or in public procurement—and improved management of public resources in the mining sector narrow the scope for collusion, corruption, or rent-seeking. The nearing of the 2026 general election could slow the pace of reforms. However, the extensive consultations that the GRZ conducts mitigate these risks. The GRZ has raised public awareness of the need to improve the country's macro-fiscal framework, boost economic growth, and increase resilience. With financing and technical assistance from the World Bank, GRZ is strengthening its social protection systems and other social programs to support the poor and vulnerable.

87. **Macroeconomic risk is high.** GRZ is strongly committed to fiscal consolidation, and most of Zambia's debt is agreed to be restructured, which eases macroeconomic risks. However, additional 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. This could affect the program objectives, notably GRZ's ability to build fiscal buffers and attract private-sector investments. However, BOZ's strengthened autonomy and mandate mitigate macroeconomic risks, along with commitments by MDBs to provide net financial flows in highly concessional terms to support Zambia's debt restructuring.

88. **Technical design of the program is rated substantial.** There is technical complexity in achieving some reforms in the programmatic DPF timeline, including establishing fiscal rules and governance arrangements for the stabilization fund, water tariff, and DRM systems. These risks are partly mitigated by planned and ongoing technical assistance.

89. **Institutional capacity for implementation and sustainability is rated as substantial.** Low capacity in several government functions may challenge the achievement of reform objectives. Mitigation measures include ongoing and planned World Bank technical assistance, as well as from development partners.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
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 Result Framework

Prior Actions and Triggers	Results			
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
<p>Prior Action #1: To enhance fiscal resilience to disasters and other shocks and manage mineral revenue volatility, the Recipient, through its Ministry of Finance and National Planning, has submitted to Parliament a National Budget Policy Statement which inter alia provides that revenues derived from mineral royalty above the budgeted projections shall be channeled to a stabilization fund</p>	<p>(Indicative) Trigger #1.1a: To enhance fiscal management of mineral revenue by building fiscal buffers, the Recipient has, through its Cabinet, established a rules-based stabilization fund with transparent and predictable criteria concerning the flow of mineral revenues in and out of the budget</p> <p>(Indicative) Trigger #1.1b: To ensure an adequate tax take from mining operations, the Recipient has, through its Cabinet, submitted to Parliament a Minerals Regulation Commission Bill defining the state-participation model in the mining sector which seeks to maximize mineral revenues while attracting private-sector investments</p>	<p>Results Indicator #1: Percentage of mineral royalties collected deposited in a stabilization fund (cumulative)</p>	0 (2024)	2.5 (2028)
<p>Prior Action #2: To strengthen fiscal risk management of sovereign credit, the Recipient has, through its Ministry of Finance and National Planning, issued the Public Debt Management (General) Regulations, 2024, which establish a credit risk assessment framework for loans raised by a public body and guarantees issued by the Recipient</p>	<p>(Indicative) Trigger #2.1: To enhance the credit risk assessment methodologies and governing arrangements for evaluating, issuing, and monitoring loans and sovereign guarantees, the Recipient has, through its Ministry of Finance and National Planning, issued regulations with objective criteria covering implicit and explicit contingent liabilities for the central government</p>	<p>Results Indicator #2: Percentage of loans by public bodies raising funds from outside the Republic that have been adequately credit risk assessed</p>	0 (2024)	100 (2028)



<p>Prior Action #3: To mobilize non-debt financing and generate carbon revenues to support resilient climate mitigation and adaptation investments, the Recipient has, through its Cabinet, submitted to Parliament the Green Economy and Climate Change Bill, 2024, which regulates the participation of project developers in carbon markets including inter alia the issuance of certificates of authorization to trade in carbon markets and registration of verifiers</p>	<p>(Indicative) Trigger #3.1: To generate carbon revenues and mobilize non-debt financing, the Recipient has, through its Ministry of Green Economy and Environment, issued regulations providing clarity and guidance for operationalizing elements of the Climate Change Bill, including eligible activities for carbon trading</p>	<p>Results Indicator #3: Number of carbon projects following international quality standards approved under the provisions of the Climate Change Bill</p>	<p>Value: 0 (2024)</p>	<p>Value: 1 (2028)</p>
<p>Prior Action #4: To strengthen private sector participation in the development of a more resilient economy, the Recipient has, through its Ministry of Finance and National Planning, issued the Public-Private Partnership (General) Regulations, 2024, which inter alia prescribe project selection, procurement, and implementation rules including the incorporation of climate change practices in projects to ensure climate resilience and adaptability of infrastructure</p>	<p>(Indicative) Trigger #4.1: To improve the business environment for PPPs in enabling sectors, the Recipient has, (i) through its Cabinet, issued a new toll policy, (ii) through its Ministry of Energy, issued regulations with standardized processes for bundling mini-grids, and (iii) through its Ministry of Water Development and Sanitation, issued water sector PPP guidelines</p>	<p>Results Indicator #4: Number of PPP schemes tendered in enabling sectors</p>	<p>Value: 0 (2024)</p>	<p>Value: 3 (2028)</p>
<p>Prior Action #5: To promote renewable energy generation and private investments in the sector, the Recipient has, through its Ministry of Energy, issued (i) Electricity (Open Access) Regulations, which grant independent power producers open access to the transmission and distribution system; and ii) Electricity (Net Metering) Regulations, which permit consumers to generate renewable energy and receive credits for the surplus electricity fed back into the grid</p>	<p>(Indicative) Trigger #5.1: To further encourage private sector investment in non-hydro renewable energy and increase the climate resilience of power generation, the Recipient has, through its Ministry of Energy, (i) approved a competitive procurement policy and framework for private sector investment in renewable energy and (ii) issued regulations defining climate resilience standards for the hydro generation system</p>	<p>Results Indicators #5:</p> <p>5.1: Additional private sector investments in non-hydro renewable energy (cumulative) (US\$)</p> <p>5.2: Additional installed capacity (MW) in non-hydro renewable energy (cumulative)</p>	<p>Value: US\$0</p> <p>Capacity: 0MW (2024)</p>	<p>Value: US\$2.26 billion</p> <p>Capacity: 1,998 MW (2028)</p>



<p>Prior Action #6: To improve disaster risk reduction, preparedness, and response, the Recipient has, through its Cabinet, approved the Disaster Risk Management Policy, 2024, which inter alia establishes a multi-hazard early warning system tailored to priority sectors</p>	<p>(Indicative) Trigger #6.1: To improve disaster risk preparedness and response, the Recipient has, through its Cabinet, submitted to Parliament a revised Disaster Risk Management Bill</p>	<p>Results Indicator #6: Number of sectors with tailor-made early warnings to activate their preparedness and response plans</p>	<p>Value: 0 (2024)</p>	<p>Value: 4 (2028)</p>
<p>Prior Action #7: To strengthen the climate resilience of the social protection system, the Recipient has, through its Cabinet, approved the 2024 National Social Protection Policy, which inter alia mainstreams resilience and preparedness of poor and vulnerable households, especially women, against the impacts of climate shocks</p>	<p>(Indicative) Trigger #7.1: To strengthen the targeting, resilience, and preparedness of poor and vulnerable households to withstand climate shocks, the Recipient has, through its Cabinet, approved the interoperable social registry for disaster response</p>	<p>Results Indicator #7: Beneficiary households of social cash transfer program (Number)</p> <ul style="list-style-type: none"> - Of which female-headed households received livelihood support through climate-smart productive inclusion interventions 	<p>Value: 1.3 million (2024)</p> <p>Baseline: 0 (2024)</p>	<p>Value: 1.5 million (2028)</p> <p>Value: 24,360 (2028)</p>
<p>Prior Action #8: To secure climate-resilient water storage and supply, the Recipient has, through its Ministry of Water Development and Sanitation, issued the Water Resources Management (Water Storage and Harvesting) Regulations, 2024, which inter alia (i) set out procedures for the construction, maintenance and operation of water harvesting and storage infrastructure; and (ii) embed strategic water emergency interventions including drought response planning, and water supply and demand management in the implementation water harvesting and storage</p>	<p>(Indicative) Trigger #8.1: To ensure the water sector financial viability and a stable and climate-resilient water supply, the Recipient has, through its Cabinet, submitted to Parliament an amended act for Water Supply and Sanitation, which (i) applies cost-reflective tariffs for all commercial utilities; (ii) clarifies the role and autonomy of the Regulator for developing tariff-setting guidelines, vetting tariff applications, and making subsequent approvals</p>	<p>Results Indicator #8: Number of commercial utilities with operation and maintenance cost coverage ratio equal to or higher than 85 percent</p>	<p>Value: 2 out of 11 (2024)</p>	<p>Value: 5 out of 11 (2028)</p>



ANNEX 2: Paris Alignment Assessment

Program Development Objectives: The program development objective is to: (i) enhance fiscal management and resilience, (ii) promote private-sector resilience through enabling sectors, and (iii) strengthen disaster risk management and climate resilience.	
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: Enhance fiscal management and resilience	
Prior Action #1. To enhance fiscal resilience to disasters and other shocks and manage mineral revenue volatility, the Recipient, through its Ministry of Finance and National Planning, has submitted to Parliament a National Budget Policy Statement which inter alia provides that revenues derived from mineral royalty above the budgeted projections shall be channeled to a stabilization fund.	
Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No
	Explanation: Increasing Zambia's fiscal resilience and its response capacity to shocks will not increase GHG emissions and is universally aligned.
Conclusion for PA 1: Aligned	
Prior Action #2. To strengthen fiscal risk management of sovereign credit, the Recipient has, through its Ministry of Finance and National Planning, issued the Public Debt Management (General) Regulations, 2024, which establish a credit risk assessment framework for loans raised by a public body and guarantees issued by the Recipient.	
Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No
	Explanation: Reducing sovereign risks, improving debt management, and boosting accountability and transparency to public finances do not increase GHG emissions and are universally aligned.
Conclusion for PA 2: Aligned	



Prior Action #3. To mobilize non-debt financing and generate carbon revenues to support resilient climate mitigation and adaptation investments, the Recipient has, through its Cabinet, submitted to Parliament the Green Economy and Climate Change Bill, 2024, which regulates the participation of project developers in carbon markets including inter alia the issuance of certificates of authorization to trade in carbon markets and registration of verifiers.	
Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No
	Explanation: This PA aims to bias financing towards investments in activities that generate fewer GHGs rather than more GHGs, which is consistent with Zambia's climate commitments.
Conclusion for PA 3: Aligned	
Pillar B Objective: Promote private-sector investment and resilience through enabling sectors	
Prior Action #4. To strengthen private sector participation in the development of a more resilient economy, the Recipient has, through its Ministry of Finance and National Planning, issued the Public-Private Partnership (General) Regulations, 2024, which inter alia prescribe project selection, procurement, and implementation rules including the incorporation of climate change practices in projects to ensure climate resilience and adaptability of infrastructure.	
Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No
	Explanation: Regulations to appraise proposed projects and assess proposed PPPs do not affect GHG emissions. The PPP regulations do not bias public investments toward 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 4: Aligned	
Prior Action #5. To promote renewable energy generation and private investments in the sector, the Recipient has, through its Ministry of Energy, issued (i) Electricity (Open Access) Regulations, which grant independent power producers open access to the transmission and distribution system; and ii) Electricity (Net Metering) Regulations, which permit consumers to generate renewable energy and receive credits for the surplus electricity fed back into the grid.	
	Answer: No



Is the prior action likely to cause a significant increase in GHG emissions?	Explanation: It is unlikely that allowing IPPs and consumers to buy and sell power, will significantly increase GHG emissions or introduce or reinforce significant and persistent barriers to the country's ability to pursue a low-emissions development pathway. On the contrary, the regulations incentivize small-scale renewable energy generation and likely the reduction of demand for more climate-unfriendly generation sources. At the same time IPPs using the transmission line will have to abide by IRP targets, which focus on expanding renewable energy, including solar and wind.
Conclusion for PA 5: Aligned	
Pillar C Objective: Strengthen disaster risk management and climate resilience	
Prior Action #6. To improve disaster risk reduction, preparedness, and response, the Recipient has, through its Cabinet, approved the Disaster Risk Management Policy, 2024, which inter alia establishes a multi-hazard early warning system tailored to priority sectors.	
Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No
	Explanation: Enhancing and strengthening Zambia's disaster risk management capabilities does not increase GHG emissions and is universally aligned.
Conclusion for PA 6: Aligned	
Prior Action #7. To strengthen the climate resilience of the social protection system, the Recipient has, through its Cabinet, approved the 2024 National Social Protection Policy, which inter alia mainstreams resilience and preparedness of poor and vulnerable households, especially women, against the impacts of climate shocks.	
Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No
	Explanation: Improving social protection targeting and the overall system capacity to respond to climate shocks and deliver social protection do not increase GHG emissions and are universally aligned.
Conclusion for PA 7: Aligned	
Prior Action #8. To secure climate-resilient water storage and supply, the Recipient has, through its Ministry of Water Development and Sanitation, issued the Water Resources Management (Water Storage and Harvesting) Regulations, 2024, which inter alia (i) set out procedures for the construction, maintenance and operation of water harvesting and storage infrastructure; and (ii) embed strategic water emergency interventions including drought response planning, and water supply and demand management in the implementation water harvesting and storage.	
	Answer: No



Is the prior action likely to cause a significant increase in GHG emissions?	Explanation: Measures to enhance access to water services will not increase GHG emissions and are universally aligned. It strengthens GRZ drought and water management systems.
Conclusion for PA 8: Aligned	
Mitigation: Conclusion of the Assessment for the Program: Aligned	

Adaptation and resilience goals: assessing and managing the risks	
Pillar A Objective: Enhance fiscal management and resilience	
Prior Action #1. To enhance fiscal resilience to disasters and other shocks and manage mineral revenue volatility, the Recipient, through its Ministry of Finance and National Planning, has submitted to Parliament a National Budget Policy Statement which inter alia provides that revenues derived from mineral royalty above the budgeted projections shall be channeled to a stabilization fund.	
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 reforms that strengthen Zambia's medium-term fiscal framework.
Conclusion for Prior Action 1: Aligned	
Prior Action #2. To strengthen fiscal risk management of sovereign credit, the Recipient has, through its Ministry of Finance and National Planning, issued the Public Debt Management (General) Regulations, 2024, which establish a credit risk assessment framework for loans raised by a public body and guarantees issued by the Recipient.	
Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	Answer: No Explanation: This PA improves the accountability and transparency of public debt management and reduces credit risks; thus, climate hazards are unlikely to negatively impact the contribution of the PA to the PDO.
Conclusion for Prior Action 2: Aligned	
Prior Action #3. To mobilize non-debt financing and generate carbon revenues to support resilient climate mitigation and adaptation investments, the Recipient has, through its Cabinet, submitted to Parliament the Green Economy and Climate Change Bill, 2024, which regulates the participation of project developers in carbon markets including inter alia the issuance of certificates of authorization to trade in carbon markets and registration of verifiers.	
	Answer: No



Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	Explanation: Climate hazards are unlikely to affect the approval or implementation of the Climate Change Bill regarding developing carbon markets. Instead, the Bill should contribute towards the PDO by making Zambia's economy more resilient to shocks by promoting non-debt financing for firms.
Conclusion for Prior Action 3: Aligned	
Pillar B Objective: Promote private-sector investment and resilience in enabling sectors	
Prior Action #4. To strengthen private sector participation in the development of a more resilient economy, the Recipient has, through its Ministry of Finance and National Planning, issued the Public-Private Partnership (General) Regulations, 2024, which inter alia prescribe project selection, procurement, and implementation rules including the incorporation of climate change practices in projects to ensure climate resilience and adaptability of infrastructure.	
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 4: Aligned	
Prior Action #5. To promote renewable energy generation and private investments in the sector, the Recipient has, through its Ministry of Energy, issued (i) Electricity (Open Access) Regulations, which grant independent power producers open access to the transmission and distribution system; and ii) Electricity (Net Metering) Regulations, which permit consumers to generate renewable energy and receive credits for the surplus electricity fed back into the grid.	
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 issuance of open access and net metering regulations by the GRZ or the contribution of this reform to meeting the PDO.
Conclusion for Prior Action 5: Aligned	
Pillar C Objective: Strengthen disaster risk management and climate resilience	
Prior Action #6. To improve disaster risk reduction, preparedness, and response, the Recipient has, through its Cabinet, approved the Disaster Risk Management Policy, 2024, which inter alia establishes a multi-hazard early warning system tailored to priority sectors.	
	Answer: No



Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objectives?	Explanation: Enhancing and strengthening Zambia's DRM systems will not have an adverse effect on the PA's contribution to the Development Objective. This PA ensures that Zambia is better equipped to anticipate, prepare for, and mitigate the impacts of climate and natural disasters.
Conclusion for Prior Action 6: Aligned	
Prior Action #7. To strengthen the climate resilience of the social protection system, the Recipient has, through its Cabinet, approved the 2024 National Social Protection Policy, which inter alia mainstreams resilience and preparedness of poor and vulnerable households, especially women, against the impacts of climate shocks.	
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 reforms to improve social protection policies. The PA will allow the poorest and most vulnerable groups to better hedge against climate risks, further enabling the GRZ to improve its allocation of spending to climate-resilience actions.
Conclusion for Prior Action 7: Aligned	
Prior Action #8. To secure climate-resilient water storage and supply, the Recipient has, through its Ministry of Water Development and Sanitation, issued the Water Resources Management (Water Storage and Harvesting) Regulations, 2024, which inter alia (i) set out procedures for the construction, maintenance and operation of water harvesting and storage infrastructure; and (ii) embed strategic water emergency interventions including drought response planning, and water supply and demand management in the implementation water harvesting and storage.	
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 PA will contribute to increased climate resilience by gathering water for households and farmers and supplying it in times of drought.
Conclusion for Prior Action 8: Aligned	
Adaptation and resilience: Conclusion of the Assessment for the Program: Aligned	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT: Aligned	



ANNEX 3: Operation Specific Annex

Environment and Poverty/Social Analysis

Table 6. Poverty and Social Impact Assessment

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar A: Enhance fiscal management and resilience		
Prior action #1. To enhance fiscal resilience to disasters and other shocks and manage mineral revenue volatility, the Recipient, through its Ministry of Finance and National Planning, has submitted to Parliament a National Budget Policy Statement which inter alia provides that revenues derived from mineral royalty above the budgeted projections shall be channeled to a stabilization fund.	No	Indirect positive poverty and social impacts. More resilient and less volatile fiscal resources will safeguard the provision of essential services and allow for a pro-poor policy response in the event of a shock.
Prior action #2. To strengthen fiscal risk management of sovereign credit, the Recipient has, through its Ministry of Finance and National Planning, issued the Public Debt Management (General) Regulations, 2024, which establish a credit risk assessment framework for loans raised by a public body and guarantees issued by the Recipient.	No	Indirect positive poverty and social impacts. Macroeconomic shocks are well-known to create major setbacks in poverty reduction. ³⁴
Prior action #3. To mobilize non-debt financing and generate carbon revenues to support resilient climate mitigation and adaptation investments, the Recipient has, through its Cabinet, submitted to Parliament the Green Economy and Climate Change Bill, 2024, which regulates the participation of project developers in carbon markets including inter alia the issuance of certificates of authorization to trade in carbon markets and registration of verifiers.	No	No impact in the short term. Potential positive poverty and social effects in the long term. The Green Economy and Climate Change Bill provides that when considering an application for carbon project development, the Director shall have regard to, among other things, participation and benefit sharing in the profits arising from carbon trading with local communities.

³⁴ Cross-country analysis finds that sovereign defaults increase the incidence of poverty by roughly 30 percent shortly after the shock and remain higher even a decade later (Farah-Yacoub et al., 2022). A regional assessment in Latin America and the Caribbean found that aside from wars, macroeconomic crises are the single most important cause of large increases in poverty (Lustig, 2000). All things equal, welfare impacts are greater in societies with high inequality such as Zambia (WB, 2024).



Operation Pillar B: Promote private-sector investment and resilience in enabling sectors

<p>Prior action #4. To strengthen private sector participation in the development of a more resilient economy, the Recipient has, through its Ministry of Finance and National Planning, issued the Public-Private Partnership (General) Regulations, 2024, which inter alia prescribe project selection, procurement, and implementation rules including the incorporation of climate change practices in projects to ensure climate resilience and adaptability of infrastructure.</p>	No	<p>Positive poverty and social impacts in the medium to long term, provided infrastructure investments include pro-poor considerations to help close access gaps. Expected negative transition costs as the move to a cost-recovery framework will increase the price of services under DPF 2.</p>
<p>Prior action #5. To promote renewable energy generation and private investments in the sector, the Recipient has, through its Ministry of Energy, issued (i) Electricity (Open Access) Regulations, which grant independent power producers open access to the transmission and distribution system; and ii) Electricity (Net Metering) Regulations, which permit consumers to generate renewable energy and receive credits for the surplus electricity fed back into the grid.</p>	Some, but mitigated by regulations.	<p>Indirect positive impact in the medium to long term through improved employment and earnings as this helps address one of the most cited barriers to business.</p>

Operation Pillar C: Strengthen disaster risk management and climate resilience

<p>Prior action #6. To improve disaster risk reduction, preparedness, and response, the Recipient has, through its Cabinet, approved the Disaster Risk Management Policy, 2024, which inter alia establishes a multi-hazard early warning system tailored to priority sectors.</p>	No	<p>Positive poverty, social, and distributional impacts in the medium term as the poor are significantly less resilient when faced with a shock.</p>
<p>Prior action #7. To strengthen the climate resilience of the social protection system, the Recipient has, through its Cabinet, approved the 2024 National Social Protection Policy, which inter alia mainstreams resilience and preparedness of poor and vulnerable households, especially women, against the impacts of climate shocks.</p>	No	<p>Positive poverty, social, and distributional effects. A shock-responsive social protection system would cushion consumption in the event of a shock and prevent the adoption of suboptimal coping strategies that affect human capital accumulation.</p>
<p>Prior action #8. To secure climate-resilient water storage and supply, the Recipient has, through its Ministry of Water Development and Sanitation, issued the Water Resources Management (Water Storage and Harvesting) Regulations, 2024, which inter alia (i) set out procedures for the construction, maintenance and operation of water harvesting and storage infrastructure; and (ii) embed strategic water emergency interventions including drought response planning, and water supply and demand management in the implementation water harvesting and storage.</p>	Some, but mitigated by regulations.	<p>Positive poverty and social impacts in the medium to long term through enhanced access to water. Access to limited-standard drinking water is among the lowest in the world, and rural households are highly dependent on rain-fed agriculture. Expected negative transition costs when the new tariff structure is implemented under DPF 2.</p>



ANNEX 4. Required Accompanying Documentation

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/52/1/1

14th November, 2024

Mr. Ajay Banga
President
World Bank Group
1818 H Street, NW
WASHINGTON, D.C.

Dear Mr. Banga,

**RE: ZAMBIA: LETTER OF DEVELOPMENT POLICY IN SUPPORT OF THE FIRST ZAMBIA
CLIMATE AND ECONOMIC RESILIENCE PROGRAMMATIC DEVELOPMENT POLICY
FINANCING WITH CATASTROPHE DEFERRED DRAWDOWN OPTION**

On behalf of the Government of the Republic of Zambia, I write to request a Development Policy Operation (DPO) with a Catastrophe Deferred Drawdown Option (CAT-DDO) on grant terms from the International Development Association (IDA). This DPO with a CAT-DDO is envisaged to be the first in a series of two operations meant to support policy and institutional reforms that will increase Zambia's climatic and economic resilience to natural disasters and other shocks.

2. Zambia has faced a multitude of crises in the recent past such as severe cholera outbreaks, floods and one of the worst droughts on record. The drought has adversely impacted agriculture and livestock, food security, water availability and electricity supply. In response, His Excellency the President of the Republic of Zambia declared the drought a national disaster and emergency in line with the Disaster Management Act No.13 of 2010. To effectively respond, Government prepared a response plan aimed at providing humanitarian assistance and recovery needs.

3. In this regard, this programmatic DPO series with a CAT-DDO will complement the Government's multisectoral response to mitigate the economic and social impacts of the drought. It will support the acceleration of legislative, structural, and policy reforms to enhance resilience against natural disasters, especially in the context of intensifying climate change effects and other natural calamities. The CAT-DDO support will accelerate implementation of policy reforms outlined in the Eighth National Development Plan (8NDP) that cover priority sectors such as mining, agriculture, energy, tourism, as well as provide social protection, with a focus on reinvigorating private sector participation. This operation will be used to deepen reforms initiated with the previous Zambia Macroeconomic Stability, Growth, and Competitiveness



development policy financing programmatic series, which was last disbursed in December 2023.

Macroeconomic Developments

4. **Economic growth.** Real GDP growth slowed down to an average of 1.9 percent in the first half of 2024 compared to an average of 4.7 percent in the corresponding period of 2023. The slowdown is mainly attributed to the impact of the drought which has significantly reduced agriculture production and electricity generation. The economy is expected to rebound in 2025. This is premised on the recovery of agriculture and a pickup in mining. It is also premised on the continued growth of the information and communication technology, accommodation and food services, and construction sectors.

5. **Inflation.** The country continues to experience inflationary pressure, registering 15.7 percent in October 2024 from 13.1 percent in December 2023. The main drivers are linked to the drought, which resulted in increased food prices and the depreciation of the Kwacha against major convertible currencies. To moderate inflationary pressures, the Bank of Zambia tightened monetary policy, raising the Policy Rate to 14.0 percent in fourth quarter of 2024 from 11.0 percent in the corresponding of 2023 and the statutory reserve ratio to 26.0 percent from 17.0 percent.

6. **External sector.** Preliminary data indicate that imports amounted to US \$4.5 billion during the first half of this year, 2.7 percent lower than the corresponding period in 2023. This largely reflects subdued economic activity mainly occasioned by the drought. Exports were broadly unchanged at US \$5.3 billion during the same period. Most of the export earnings were from copper, driven by higher prices, while non-traditional export earnings from commodities such as cane sugar declined. Gross international reserves increased to US \$3.9 billion, equivalent to 4.3 months of import cover at end-July 2024, from US \$3.3 billion at end-December 2023, which was equivalent to 3.7 months. The increase was mainly on account of the US \$570 million disbursement by the International Monetary Fund under the Extended Credit Facility Arrangement.

7. **Fiscal policy** has remained focused on supporting the drought response while delivering positive primary balance since the last DPO II operation in December 2023. Fiscal revenues are expected to close 2024 at 0.8 percent above target underscored by Government's efforts to enhance domestic resource mobilization and grant financing to support Government prudent expenditure. After the realignment of the Budget, the deficit is now expected to be 6.4 percent of GDP compared to the initial estimate of 4.8 percent of GDP. This projected fiscal outturn is commendable given all the pressures emanating from the drought. It reflects Government's commitment to prudent management of public funds. Consequently, the Budget is expected to exceed the primary fiscal balance (cash basis) in 2024 despite lower-than-projected mining revenues and above target clearance of value added tax (VAT) refunds.

8. **Debt position and arrears.** As at end-June 2024, the central Government external debt stock, excluding publicly guaranteed external debt, increased by 4.1 percent to US \$15.17 billion from US \$14.57 billion at end-December 2023. The increase was largely on account of new disbursements from multilateral



creditors and the continued accumulation of arrears. Publicly guaranteed external debt declined by 1.3 percent to US \$1.39 billion from US \$1.41 billion at end-December 2023. This was on account of debt service payments by some guaranteed entities. During this period the stock of Treasury bills and Government bonds reduced by 3.1 percent due to tight money market liquidity conditions, which constrained commercial banks' lending to Government. Similarly, the stock of outstanding government bills to various suppliers was reduced by 18.3 percent to K79.8 billion from K97.7 billion at end-December 2023. With the commitment to dismantle fuel arrears, the outstanding stock is expected to significantly reduce by the end of the year.

9. Financial sector. commercial banks' average nominal lending rates rose to 28.7 percent in October 2024 from 26.1 percent in October 2023. This was broadly in line with the upward adjustment in the policy rate. Notwithstanding the increase in lending rates, credit to the private sector has been expanding, growing by 36.9 percent in July this year compared to 34.2 percent in July 2023. The bulk of the credit went to wholesale and retail trade, manufacturing, and agriculture sectors. Overall, the banking sector continues to be resilient, supported by adequate capital, liquidity buffers, and good asset quality. Similarly, the performance of the deposit-taking non-bank financial institutions sector has remained satisfactory as the capital position, earnings performance, liquidity management and sensitivity to market risk remain satisfactory while asset quality is rated fair.

10. Structural Reforms and Policies to Support Climatic and Economic Resilience

Government's structural reform agenda includes several fiscal and debt reforms as well as growth-enhancing policies. The devastation caused by the drought demands a response that goes beyond recovery; it necessitates building resilience in our people and the economy. A crucial aspect of achieving this is to strengthen our economy. To enhance economic resilience and improve the livelihoods of our people, the Government has established a robust reform agenda that includes the following measures.

a. Disaster risk management and climate resilience

To effectively coordinate response to future natural disasters and emergencies, Government through Cabinet has approved the Disaster Risk Management policy. The policy provides for institutional arrangements as well as enhancing capacities for selected institutions in responding to natural calamities. Further, the policy recognizes the importance of mobilising disaster risk financing for the country to fortify its resilience to climatic and natural disasters. In this regard, Government is in the processing of developing the Disaster Risk Management financing strategy.

b. Social protection reforms

To have a cohesive social protection landscape that adequately responds to the needs of the vulnerable population, Cabinet has approved the revision of the National Social Protection Policy. This policy has become crucial as Government implements various social protections programs that need to be well coordinated



and managed, to ensure that the programs compliment each other and have the maximum positive impact on the beneficiaries.

c. Fiscal and Debt Reforms

Fiscal

Government has continued to implement policy and administrative interventions to broaden the tax base and curb revenue leakages. In this regard, Zambia Revenue Authority (ZRA) has restructured its operating model to make it more efficient and effective in tax administration. This includes the use of enhanced data analytics and compliance risk management. Government rolled out the Smart Invoice System to optimize revenue collection and seal leakages.

To further strengthen tax and non-tax administration, the Government is continuing to automate processes, including the integration of the ZRA to the Government Service Bus (GSB) and other third parties. Government, in collaboration with Local Authorities, will also implement measures to enhance revenue collection, particularly property taxes. The collaboration will be strengthened by integrating systems, building capacities, reviewing and amending existing laws, and reassigning responsibilities for the collection of revenues.

To ensure that Government has the resources to meet disasters, given the frequency and intensity of climate change-induced shocks, it will establish a stabilisation fund. To this end, revenues derived from mineral royalty more than the projection will be channeled to the stabilisation fund.

Debt

The Government has made significant progress in restructuring external debt. In June this year, the Government successfully restructured its Eurobonds and commenced debt servicing on these bonds, with the first payment made in June. Additionally, the Government reached a debt restructuring agreement with its official creditors in June 2023, followed by the signing of a Memorandum of Understanding (MoU) in October 2023. The MoU provides the framework for bilateral agreements with individual official creditors. This agreement will serve as a model for negotiations with other official creditors. The status of debt restructuring negotiations with various creditors is as follows:

- i. We have concluded negotiations with Paramount and Huawei Technologies and have since executed the agreements;
- ii. The Government recently reached an Agreement in Principle with the Industrial and Commercial Bank of China and the China Development Bank. The Agreements in Principle have been reviewed by the International Monetary Fund (IMF) for compatibility with program parameters and by the OCC for the Comparability of Treatment. These two Agreements, accounting for a total of US \$1.5 billion, have passed both tests. The next step is to finalize the agreements for execution; and



companies that had contemplated exiting and has led to the revival of a mine previously abandoned for nearly two decades. Thirdly, Government is supporting the exploration of minerals and hydrocarbons through countrywide aerial geophysical surveillance and formalizing the mining and trading in Gold. Further, to enhance the regulatory oversight in the mining sector, Government will reintroduce a legislative Bill to Parliament to operationalise the Minerals Regulation Commission. The Commission will address, among others, issues pertaining to production reporting, mineral content analysis, illegal mining, and illicit trade of minerals.

Energy

To have a balanced energy mix and attain universal energy access in the medium term, Government is undertaking various reforms which include:

- i. Implementing the net-metering initiative to encourage consumers to generate power and supply excess to the national grid;
- ii. The Energy Single Licensing System has been introduced to streamline the licensing process. This is aimed at reducing the period applicants take to obtain licenses and permits for energy projects;
- iii. Implementation of the Multi-Year Tariff Framework to achieve cost-reflective tariffs;
- iv. Promote investment in alternative energy sources for both off grid and on grid solutions;
- v. Increasing access to electricity in rural areas through implementing the Rural Electrification Program; and
- vi. Open access for the use of the TAZAMA pipeline to allow oil marketing companies to transport petroleum products and allow for competitive pricing.

Green growth


In 2024, Government launched the National Green Growth Strategy, which is aimed at creating green jobs, enhancing resilience to shocks, and creating business opportunities. It also seeks to foster the adoption of a growth pathway that fosters low-carbon, resource-efficient, resilient, and socially inclusive growth. Further, Government in October 2024 approved the Climate Change Bill which will be submitted to the National Assembly for consideration. The Bill contains provisions to establish the Climate Change Fund which will support national climate change mitigation, adaptation programs and projects, research, and other climate change-related developments.



Conclusion

The policies and actions outlined in this letter will immensely contribute towards achieving the country's recovery and inclusive prosperity agenda as outlined in the 8NDP and Vision 2030. To implement these reforms, there is need to strengthen ongoing communication and cooperation with the private sector, Civil Society, Local Authorities, and Cooperating Partners. It is against this background, that I wish request the World Bank's assistance to support the actualisation of this Programme.

Please accept my assurances of my highest consideration.


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



Fund Relations Note

Zambia: IMF Executive Board Completes Third Review Under the Extended Credit Facility and Approves Augmentation of the Arrangement

June 26, 2024

- The IMF Executive Board completed the third review under the 38-month Extended Credit Facility (ECF) Arrangement for Zambia and approved an augmentation of the arrangement, providing Zambia with immediate access to about US\$569.6 million.
- Program performance has been satisfactory. All quantitative performance criteria for the third review were met, and all but one structural conditionalities were completed.
- The authorities remain committed to supporting macroeconomic stability, restoring fiscal and debt sustainability, clearing arrears, and addressing Zambia's drought-related humanitarian needs. They are also focused on advancing structural and governance reforms to promote inclusive growth.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the third review of Zambia's 38-month [Extended Credit Facility](#) (ECF) Arrangement and approved an augmentation of SDR 293.46 million (about US\$385.7 million). Completion of the review allows for an immediate disbursement of SDR 433.34 million (about US\$569.6 million), bringing Zambia's total disbursement so far under the ECF-supported program to SDR 852.98 million (about US\$1.1 billion).

Zambia's [ECF Arrangement](#) was approved on August 31, 2022, for SDR 978.2 million (100 percent of quota, or about US\$1.3 billion). The augmentation approved today increases access to SDR 1271.66 million (130 percent of quota, about US\$1.7 billion). The program supports Zambia's home-grown Eighth National Development Plan that seeks to entrench macroeconomic stability, attain debt and fiscal sustainability, enhance public governance, and foster inclusive growth to improve the livelihood of the Zambian people, especially the vulnerable.

Program performance has been satisfactory despite a challenging domestic and global environment. All quantitative performance criteria targets and all but one of the indicative targets for the end of 2023 were met. The authorities have also made progress in their structural reform agenda, with all continuous and end-December 2023 structural benchmarks, and all but one end-March 2024 structural benchmark being completed on time.

Zambia is grappling with a severe drought that has significantly impacted agriculture and electricity generation, affecting a substantial share of the population. Consequently, growth projections for 2024 have been revised down to 2.3 percent, from 4.7 percent, and the 2024 budget has been revised to accommodate the drought's impact. Despite these challenges, the authorities remain committed to supporting macroeconomic stability, restoring fiscal and debt sustainability, clearing arrears, and addressing Zambia's humanitarian needs. The authorities are also taking steps to improve governance and advance structural reforms to foster growth.

Zambia is working on implementing the October 2023 Memorandum of Understanding reflecting the debt restructuring agreement with the Official Creditor Committee (OCC) through bilateral agreements, marking a critical step in the



restructuring process. Furthermore, Zambia reached a restructuring agreement with Eurobond holders on March 25, 2024, which is in line with IMF program parameters, and the OCC confirmed comparability of treatment among creditors. Following the consent solicitation launched on May 13, the bond exchange was settled on June 11, 2024. Zambia continues to engage in good faith negotiations with other commercial private creditors, aiming for an agreement by year-end.

Following the Executive Board discussion on Zambia, Ms. Antoinette Sayeh, Deputy Managing Director, and acting chair, issued the following statement:

"The authorities' satisfactory performance under the ECF-supported arrangement and continued focus on economic stabilization and reforms have resulted in stronger-than-envisaged fiscal and economic outcomes, and progress on structural reforms. Nonetheless, the drought has affected a substantial share of the population, and the authorities should continue their commendable efforts to address the humanitarian needs. Going ahead, coordinated macroeconomic policies, continued efforts to restore fiscal and debt sustainability, and consistent reform implementation would be key to addressing the impact of the drought, preserving macroeconomic stability, and bolstering growth.

"Adhering to the committed fiscal consolidation over the program period remains critical to ensure fiscal sustainability. Given the significant spending reprioritization in 2024, focus should be put on revenue mobilization, including enhancing tax administration and broadening the tax base. The envisaged public financial management reforms will enhance spending controls, budget execution, and fiscal accountability. Greater progress in budgetary arrears clearance will be important.

"The implementation of the Eurobond exchange, consistent with program parameters and comparability of treatment as set by the Official Creditor Committee (OCC), and steps toward implementing the memorandum of understanding with all OCC members are welcome. Reaching a timely agreement on a debt treatment with the remaining private creditors on comparable terms and in line with program parameters would make Zambia's debt sustainable on a forward-looking basis.

"A tight monetary stance until inflation declines toward the Bank of Zambia's target range would help anchor inflation expectations. Reserve accumulation and sustained exchange rate flexibility remain critical to address external shocks. Financial sector reforms are important to foster financial stability and inclusion.

"Governance and structural reforms remain key to promoting private sector activity and economic diversification. Implementing the Access-to-Information Act, reviewing the Anti-Corruption Act in a timely manner, and enhancing transparency and governance in the energy and mining sectors will help reduce policy uncertainty, improve the business climate, and attract greater investments. The drafting of the Climate Change Bill is welcome; continued efforts for climate adaptation, and the use of climate-resilient energy sources would help support sustainable growth. "

Zambia: Selected Economic Indicators, 2022–26

Population (millions, 2022):	20.0	Per capita GDP (\$, 2022):	1,455
Quota (SDR millions):	978.2	Poverty rate (2022):	60
Main products and exports:	Copper		
Key export markets:	China		



	2021	2022	2023	2024	2025	2026
			Est.	Proj.	Proj.	Proj.
Output						
Real GDP growth (%)	6.2	5.2	5.4	2.3	6.6	5.9
Prices						
Inflation annual average (%)	22.0	11.0	10.9	14.6	12.1	7.0
Inflation end-of-year (%)	16.4	9.9	13.1	15.0	7.9	7.0
Central government finances						
Revenue (% GDP)	22.4	20.4	21.5	21.4	21.8	21.8
Expenditure (% GDP)	30.5	28.2	27.9	27.5	24.6	25.1
Fiscal balance (cash basis, % GDP)	-8.1	-7.8	-6.5	-6.1	-2.8	-3.4
Fiscal balance (commitment basis, % GDP)	-13.9	-5.4	-5.6	-2.5	-1.6	-2.3
Public debt (% GDP)	112.1	110.9	133.4	107.5	88.5	79.2
Money and Credit						
Broad money (% change)	3.7	24.5	24.6	10.5	13.2	10.4
Credit to private sector (% change)	-7.8	34.2	41.3	23.6	29.0	15.6
3-month Treasury bill interest rate (%)	12.8	9.6
Balance of payments						
Current account (% GDP)	11.9	3.8	-1.9	-0.2	6.9	5.7
FDI (% GDP)	3.1	0.6	-0.1	3.8	3.8	4.5



Reserves (in months of imports)	3.3	3.4	3.6	4.3	5.0	5.2
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Exchange rate

REER (% change)	5.0	30.3	-7.3
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