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INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH

POLYGRAM OPINION POLL # 1

ZAMBIA'S RISING NATIONAL DEBT:

TOWARDS ANOTHER DEBT-TRAP?

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ZAMBIA'S RISING NATIONAL DEBT:

TOWARDS ANOTHER DEBT-TRAP?

JOLLY KAMWANGA
PATRICIA FUNJIKA
GRAYSON KOYI

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Abbreviations

BoZ	Bank of Zambia
DSA	Debt Sustainability Analyses
GDP	Gross Domestic Product
HIPC	Highly-indebted Poor Country
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief
MoF	Ministry of Finance
PF	The Patriotic Front
PPG	Public and Publicly Guaranteed
PRSP	Poverty Reduction Strategy Papers
T-bills	Treasury bills
T-bonds	Treasury bonds
ZAMTEL	Zambia Telecommunications Company Limited
ZESCO	Zambia Electricity Supply Corporation

Executive summary

Background

During the period 1982 to 2004, Zambia experienced a crippling debt burden that limited the country's prospects for economic growth. Substantial domestic resources were crowded out to service the debt. In view of the devastating effects of the debt, the international community, through the Multilateral Debt Relief (MDRI) and Highly-indebted Poor Country (HIPC) Initiatives in 2004 and 2006 respectively, provided relief that saw the national debt declining from US $7.1 billion before HIPC to US $500 million after. In the recent past, especially after the 2011 elections, there has been a sudden surge in debt contraction, principally propelled by infrastructure development needs.

Concerns have been raised about the rapid rate at which new debt is being contracted. To this end, the IMF carried out a Debt Sustainability Analyses (DSA) analysis, which showed that the public external debt as at end 2016 was s estimated at US$9.3 billion while domestic debt stock was estimated at K53.5 billion. In view of the US$4 billion in external loans contracted since early 2016 through the first half of 2017 and additional government's borrowing plans for another $4 billion over the next five years, the total debt burden was expected to rise to over 60 percent of GDP and the present value of external debt to over 40 percent of GDP by 2019, both above their respective thresholds, thus moving Zambia to high risk of debt distress.

Objectives and methods

In the light of the growing debt distress, there is need to establish how Zambians perceive the issue of national debt, in relation to contraction, management, utilization and repayment. This Opinion Poll explores this question by drawing on perceptions from a survey of Zambian key stakeholder institutions. The specific objectives of the Opinion Poll were to:

i) Assess the relationship between current and past national debt;
ii) Gauge views on whether the current national debt is sustainable;
iii) Gauge perceptions on the relationships between external and internal debt, and;
iv) Explore the effectiveness of current institutional arrangements for debt management.

Data for the Opinion Poll were collected in the period February-March 2016. The Opinion Poll was carried out in Lusaka District of Zambia. Lusaka was purposively selected because it is one of the main hubs of economic activity and has an adequate number of informed respondents/institutions who constituted the 117 stakeholder institutions in the sampling frame. The actual sample for the Opinion Poll was made up of 77 organizations, out of which 44 returned the survey questionnaire, representing a 57.1 percent response rate.

A semi-structured questionnaire was used to collect data from the sampled institutions. The questionnaire had three broad sets of questions: general state of the economy; pre-2006 and post 2011 debt situation; and performance of the Ministry of Finance (MoF), Central Bank and the National Assembly in debt management. The choice of the reference times, pre-2006 and post-2011, was in order to capture the pre- HIPC and post-2011 election period; these mark distinct periods in debt contraction, which the respondents could easily relate to.

Results and discussion of perceptions on national debt

i) There was a high level of pessimism about the state of the economy

Three quarters of the respondents felt that the state of the national economy was unacceptable. Three quarters of the respondents disagreed or strongly disagreed that the movements in economic variables were acceptable. Responses generally graded national economic performance lowly, with 71 percent, 73 percent, 62 percent and 65 percent disagreeing and strongly disagreeing that price rises, foreign exchange rate movements were acceptable; jobs in the formal sector had risen, and foreign exchanges had improved, respectively. The only positively rated aspect of the economy was the observed increased in informal sector jobs.

i) There was more transparency in debt contraction during the pre-HIPC period

On debt contraction before 2006 and after 2011, a higher percentage (65.9) of the respondents characterized the post-2011 period to have been marked by less transparency than the pre-2006 period (44.2 percent). Over two thirds of the respondents either disagreed or strongly disagreed that the Government had adequately explained the process of acquiring debt to the general public during both the pre-2006 (70 percent) and Post- 2011 periods (81 percent).

Respondents were also asked to indicate whether they felt that there were visible developments associated with the external debt in the country. Only 43 percent of the respondents associated the

contraction of debt to visible developments in the period before 2006 while 48 percent associated debt with visible developments in the post 2011 period. Transport infrastructure projects were cited as a case of visible developments associated with external debt.

ii) The Ministry of Finance was lowly rated on three of four functions

Respondents were asked for views on four aspects of the Ministry of Finance performance: whether the Ministry had provided correct reasons for acquiring debt; the reasons given for the increase in the debt ceiling were justified; provided a clear road map on how debt would be repaid and provided clear evidence on how the borrowed money had been used. Half of the respondents either disagreed or strongly disagreed that the Ministry of Finance had proffered correct reasons for acquiring debt and increasing the debt ceiling. An even higher proportion (70 percent) of the respondents either disagreed or strongly disagreed that the Ministry of Finance has provided a road map for repaying and adduced evidence of how the loans so acquired had been used.

iii) The Central Bank was positively rated on two functions

Respondents were asked for their views on how well the Central Bank had played its role of advising the Government on the implications of the debt and whether they had communicated the implication of debt on financial markets. Two thirds of the respondents either agreed or strongly agreed that the Bank had adequately advised the Government on the implications of national debt. However, a lower percent agreed that the Bank had effectively communicated the implications of increasing national debt on financial markets. It is worth mentioning that about one third (27.9 percent) of the respondents were not sure about the role of the central bank in national debt management.

iv) The National Assembly was lowly rated on four functions

Respondents were asked for views on six aspects of the National Assembly's roles: whether it had performed its oversight role in the process of acquiring debt; managing debt; had provided justifiable reasons for agreeing to increase the debt threshold level; communicated the rationale for increasing threshold to constituencies; explained how loans have been utilized and how new loans would be utilized. The results showed that respondents consistently disagreed or strongly disagreed that the National Assembly had effectively carried out its mandate. The perceived ineffective oversight role of the National Assembly in debt contraction and management could be attributed to the fact that

most loans acquired by the Ministry of Finance had previously been contracted without the knowledge of Parliament since the Minister of Finance had in the past been mandated to contract loans on behalf of government. However, it might reflect the inability of the National Assembly to preside over the Executive Arm of Government. Further, there could be capacity constraints that limit comprehension of intricacies and details of external debt and risk management, and possibly domination of the National Assembly by the ruling party.

v) There was a widely held view that the national debt was not sustainable

The respondents had generally negative views on the effects of the national debt, were of the view that Government would not be able to repay the national debt, and perceived the chances of debt cancellation to be low. Over two thirds of the respondents either disagreed or strongly disagreed that the debt level would not affect growth of the economy. Over half (60 percent) either disagreed or strongly disagreed that Government had the capacity to meet the current debt servicing obligations. A paltry 10 percent of agreed that the country had the capacity to meet the debt servicing obligations. There was a widely held view by two thirds (67 percent) of the respondents that the country would fall into another debt trap.

Recommended strategies for managing national debt

i) Ensuring transparency and accountability

Clarity of roles and responsibilities: There should be clarity of roles, responsibilities and objectives of institutions responsible for debt management. In this regard, the allocation of responsibilities among the MoF, the Central Bank, and the National Assembly should be publicly disclosed. Further, the objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained.

Open process for formulating and reporting debt management policies: An open process for formulating and reporting of debt management policies should be designed and implemented; important aspects of debt management operations should be publicly disclosed.

Public availability of information on debt management policies: The public should be availed information on past, current, and projected debt activity, including its financing and the consolidated financial position of the government. The government should regularly publish information on the stock and composition of debt and financial assets, including their currency, maturity, and interest rate structure.

Accountability and assurances of integrity by agencies responsible for debt management: Debt management activities should be audited annually by the Auditor General's office.

ii) Streamlining the institutional framework

The legal framework should clarify the authority for borrowing, issuing new debt, investing, and undertaking transactions on the government's behalf. The organizational framework for debt management should be well specified; the mandate and roles should be well articulated. Debt management activities should be supported by an accurate and comprehensive management information system, which has proper safeguards. Staff involved in debt management should be subject to a code-of-conduct and conflict-of interest guidelines regarding the management of their personal financial affairs.

iii) Improving information for effective debt management

The risks inherent in the structure of the government's debt should be carefully monitored and evaluated. These risks should be mitigated to the extent possible by modifying the debt structure, taking into account the cost of doing so. In order to help guide borrowing decisions and reduce the government's risk, debt managers should consider the financial and other risk characteristics of the government's cash flows. Debt managers should carefully assess and manage the risks associated with foreign-currency and short-term or floating rate debt. There should be cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due.

iv) Developing a risk management framework

A framework should be developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the government debt portfolio. To assess risk, debt managers should regularly conduct stress tests of the debt portfolio on the basis of the economic and financial shocks to which the government and the country more generally are potentially exposed. Debt managers should consider the impact that contingent liabilities have on the government's financial position, including its overall liquidity, when making borrowing decisions.

v) Achieving an efficient market for Government securities

In order to minimize cost and risk over the medium to long run, debt managers should ensure that their policies and operations are consistent with the development of an efficient government securities market.

Conclusion

The evidence of this Opinion Poll suggests that stakeholder perceptions on the rising national debt are largely unfavorable and not optimistic in relation to questions of debt contraction, sustainability, and effectiveness of institutional arrangements for debt management.

The unfavorable perceptions on national debt could be attributed to the post-2011 high propensity to borrow from costly international financial markets and other private sources; current and pipeline loans which are pushing the economy towards another debt trap.

Stakeholder perceptions suggest that the current debt contraction process lacks transparency and accountability and that information concerning the size and structure of national debt is limited.

The institutional framework for debt management was perceived to be ineffective, prompting recommendation for clarity of roles, responsibilities and objectives of institutions involved in debt management.

The Opinion Poll concludes that while there might be nothing wrong with borrowing to augment domestic resources, Zambia's rising national debt suggests a trend towards a debt trap. In this regard, there is a strong case to pause, reflect and adopt strategies to improve national debt management in order to avert an imminent national crisis.

Chapter 1. 0: Introduction

During the period 1982 to 2004, Zambia experienced a crippling debt burden that limited the country's prospects for economic growth. Substantial domestic resources were being crowded out to service the external debt. At the domestic level, external debt service obligations militated against local business growth and credit expansion. However, the completion of the Heavily Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) in 2004 and 2006, respectively, provided the country with a total of about US$6.5 billion in debt relief (IMF, 2006) [1]. The debt relief improved Zambia's external position and enabled the national economy to build up foreign exchange reserves. This strengthened the country's ability to manage volatility in its exchange rate and bolstered the financial system.

In the immediate post-HIPC era, the Zambian government continued to pursue austere economic policy measures aimed at achieving sustained economic growth, macroeconomic stability and balance of payments viability. Fiscal prudence set out in the Poverty Reduction Strategy Papers(PRSP)[2] bolstered macroeconomic stability. Deficit financing was limited to less than 2 percent of Gross Domestic Product (GDP) to avoid fiscal imprudence and undue pressure on commercial banks' lending rates.

A combination of prudent macroeconomic policies and a rebound in copper prices on the international market helped the national economy attain steady economic growth, averaging about 6 percent in the period 2000 to 2010. While noting the positive strides, economic growth was concentrated in the capital-intensive mining and construction sectors, with limited impact on employment creation. Despite efforts to diversify the economy, it remained largely dominated by the mining sector, with copper and cobalt accounting for about 80 percent of the country's total export earnings. This imbalance has continuing predisposing the national economy to external economic shocks due to price volatility in the international copper market. Agriculture, the major economic activity in the national economy remained largely

[1] IMF, 2006, IMF: Washington. DC.
[2] Ministry of Finance, 2002-2004, Poverty Reduction Strategy Paper; Lusaka, Zambia

underdeveloped despite its potential to benefit a larger segment of the national population, and in particular the rural poor.

The risk of over reliance on copper earnings began to tell with the initial wave of the international financial crisis in 2008. The price of copper on the international market fell by about 65 percent between March and December 2008, dampening national economic growth prospects, and leading to a general scaling down of employment in the mining and related sectors. A second wave of the copper price dip set in at the beginning of 2014 until about January 2016. This left the national economy struggling to finance infrastructural projects embarked on during the period of relative economic boom.

The expanded fiscal space was boosted by a steady rise in copper export earnings. With this turn of fortune, a country that appeared on the brink of collapse in the early 1990s (with major risk-averse corporate bodies like Barclays Bank and Anglo-American opting to re-locate their operations away from Zambia in the 1990s), had apparently survived and was, arguably, on a path to economic prosperity. Paradoxically, the unparalleled economic improvements were not matched by corresponding positive changes in social welfare indicators. Poverty remained a daunting problem. The persistently poor living conditions provided grounds for political disaffection, which led to a change of Government in 2011. The Patriotic Front (PF) won the election on the basis of a pro-poor campaign that promised to uplift the conditions of the poor majority. The pro-poor message was well received by a population eager to see change in their livelihoods.

In a bid to expedite delivery on promises made during the campaign period, the new PF Administration resorted to external borrowing. For the first time in the history of the country, Zambia floated sovereign bonds on the international market that attracted a significant favourable response. The first floatation in 2012 yielded US $750 million. A second floatation issued in 2014 yielded US$2billion[3]. A third floatation in 2015 yielded a further US $1.25 billion. Consequently, Zambia's recent stock of external debt (public and private) rose sharply from 2011 onwards, mainly because of the issuance of Eurobonds and a rapid rise in private sector debt from China. At the end of 2016, outstanding Public and Publicly Guaranteed

[3] Ministry of Finance, 2015 National Budget Speech. Lusaka, Zambia

(PPG) external debt stood at nearly US$9 billion (36.5 percent of GDP) compared to US$1.9 billion (8.4 percent of GDP) at the end of 2011. Publicly guaranteed debt (for ZESCO and ZAMTEL) stood at US$771 million (3.5 percent of GDP), almost six times the amount at end-2012 (IMF, 2017).

Borrowing by the PF administration to finance infrastructure development projects appear to have set in motion a new wave of external debt contraction that might potentially spiral out of control. The country is at the verge of another crippling national debt crisis. While the actual stock of Zambia's external debt remains unclear, it is estimated at US$9 billion IMF (2017)[4] Debt Sustainability Assessments (DSA) suggest that Zambia's risk of debt distress has increased to high, largely driven by projected high borrowing requirements over the medium term. According to the IMF (2017), even though the public debt-to-GDP ratio dropped in 2016, projected disbursements of the US$4 billion in external loans contracted since early 2016 through the first half of 2017 and the additional government's borrowing plans for another $4 billion mostly on non-concessional terms over the next five years will raise the total debt burden to over 60 percent of GDP and the present value of external debt to over 40 percent of GDP by 2019, both above their respective thresholds, thus moving Zambia to high risk of debt distress (IMF, 2017).

The IMF, 2017 sustainability analysis on Zambia's debt made six observations about Zambia's debt evolution over the 2011-2016 period:

1. Zambia's stock of total external debt (public and private) has risen sharply since 2011, mainly reflecting issuance of Eurobonds by the government and a rapid rise in private sector debt. By the end of 2016, outstanding public and PPG external debt stood at nearly US$8 billion (36.5 percent of GDP) compared to US$1.9 billion (8.4 percent of GDP) at the end of 2011 (Table 1) Publicly guaranteed debt (for ZESCO and ZAMTEL) stood at US$771 million (3.5 percent of GDP), almost six times the amount at end the 2012;

2) The composition of public debt has shifted towards external non-concessional debt. The share of central government's debt from multilaterals has fallen sharply from about 60 percent

[4] IMF (2017) Zambia Selected Issues, Country Report No.17/328. IMF: Washington. D.C

in 2011 to 20.5 percent, while the share of private banks/investors has risen to almost 50 percent;

3. Improved data collection has shown that private sector debt is much larger than previously reported. Private sector debt, which had been relatively modest, rose from 6 percent at end-2014 to 40 percent at end-2016, which in large part reflects an increase in the coverage of firms used to estimate private sector debt; the number of firms in the survey increased from 30 in 2014 to about 350 in 2015;

4. The pace at which the authorities have contracted debt has increased considerably in recent years. The number and value of loans has increased sharply from 5 loans with a combined value of US$0.5 billion in 2011 to 30 loans totaling US$3.4 billion in 2016.;

5. Domestic public debt increased from 12.4 percent of GDP in 2011 to 24 percent of GDP in 2016. In 2011, treasury bills (T-bills) and treasury bonds (T-bonds) accounted for about 93 percent of the total domestic debt, with the remainder coming from accumulation of arrears and financing from the banking system. In 2016, the share of government securities (T-bills and T-bonds) dropped to 49.8 percent of total domestic debt while arrears increased to about 33 percent of the total and the remaining reflected debt to the Bank of Zambia and domestic commercial banks; and

6. Fiscal performance and exchange rate movements have been the main drivers of public debt dynamics. Total public sector debt at end-2016, as a ratio of GDP, was almost triple that at end-2011. Fiscal deficits have been a significant contributor to the evolution of public debt, although in 2015 and 2016, exchange rate movements had the largest impact.

Table 1: Evolution of Debt Indicators in Zambia

	2011	2012	2013	2014	2015	2016
			Percent of GDP			
Total External debt	15.9	17.3	20.5	28.5	91.5	78.5
Public and Publicly guaranteed	8.4	13.7	13.8	20.1	43.1	36.5
Central Government	6.5	11.6	11.3	16.6	37.6	32.1
Bank of Zambia	1.9	1.6	1.4	1.3	1.5	0.8
Public guaranteed	0.0	0.5	1.2	2.3	3.9	3.5
Private and Parastatal	7.6	3.6	6.7	8.4	48.4	42.0
Private	7.5	3.6	6.7	6.0	44.4	39.8
Parastatal	0.1	0.0	0.0	2.4	4.0	2.3
Total Public debt	20.8	25.4	27.1	35.6	61.4	60.5
Domestic debt	12.4	11.7	13.2	15.5	18.3	24.0
Securities	11.4	11.2	12.2	11.7	10.7	11.9
T-bills	6.0	5.9	6.1	5.6	5.3	6.0
T-bonds	6.0	5.3	6.0	6.1	5.4	5.9
Other 1/	1.0	0.6	1.1	3.8	7.6	12.1
External debt	8.4	13.7	13.8	20.1	43.1	36.5
	Composition of Central Government's External Debt (percent)					
Multilaterals	59.7	33.6	35.5	27.1	20.2	20.5
Bilaterals	9.4	3.2	2.1	3.0	3.3	6.2
Private banks/investors	0.0	34.7	32.5	45.7	51.2	46.3
Suppliers' Credit	31.0	28.5	30.0	24.3	25.3	26.9
	Composition of Domestic Debt (percent)					
Securities	92.6	93.2	79.0	74.4	57.0	49.8
T-bills	48.5	48.8	40.0	71.7	28.3	25.1
T-bonds	44.1	44.4	39.1	38.8	28.7	24.7
Other 1/	7.5	6.8	21.1	25.6	43.0	50.2

Sources: Zambia Authorities and Staff calculations.
1/Includes accumulation of domestic arrears and financing from BoZ and Commercial banks

Chapter 2. 0: Study objectives and methodology

Within a short period, the country has moved from being essentially debt free ($502 million as at 2006) to estimated publicly guaranteed debt of nearly US$9 billion as at end-2016. From a technical viewpoint, the estimated external debt level at US$9 billion is sustainable and the Zambian government may still be within their right to borrow for development projects. However, the rate at which the government has been borrowing may be a source of concern, especially that there might also be unresolved accountability issues regarding the real extent and utilisation of this debt.

Arising from Zambia's experience with the debt burden, the accompanying socio-economic impact, the unparalleled past debt relief, the decision to resort to accessing financial resources from the international money markets and current debate on the extent and utilisation of the external debt, this Opinion Poll set out to gauge the views of citizens and key stakeholders on the external debt situation. The basic objective of the Opinion Poll was to gauge the views and perceptions of selected actors in the country on various aspects of the national debt. The specific objectives were as follows:

i. Assess the relation between current and past national debt;
ii. Gauge views on whether the current debt is sustainable;
iii. Determine perceptions on the relationships between external and internal debt; and
iv. Explore the effectiveness of current institutional arrangements for debt management.

The Opinion Poll used a cross sectional survey methodology with both quantitative and qualitative components. Data was collected in the period February-March 2016. The Opinion Poll was carried out in Lusaka District of Zambia. Lusaka was purposively selected because it is one of the main hubs of economic activity and has adequately well-informed respondents/institutions who constituted the sampling frame. Stakeholder institutions sampled were private sector, civil society and professional associations. A sample of 77 respondents was drawn from a total target population of 117 stakeholder institutions in Lusaka.

The sample was selected using a stratified random sampling technique. The different elements of the population were first divided into different strata (organisation type) after which a proportionate sample was obtained. The sample for the Opinion Poll was made up of 77 organizations located within Lusaka Province, out of which 44 returned the survey questionnaire, representing a 57.1 percent response rate.

A semi-structured questionnaire was used to collect stakeholder perceptions on the external debt question. The questionnaire was divided in five sections, each with questions focused on different themes. The first part had general questions on the state of the economy: inflation rate, exchange rate, employment, and international foreign exchange reserves. The second part dealt with the pre-2006 and post-2006 experiences of debt contraction; the first section dealt with issues of management of the national debt and the roles of the Ministry of Finance, Bank of Zambia, and the National Assembly; the fourth section addresses questions on debt sustainability; the last part contained questions aimed at comparing internal and external debt.

The main challenge faced was the unreliability of the stakeholder sampling frame obtained from the Registrar of Societies. Contact details for almost 50 percent of the institutions listed were either incorrect or not valid. This led to protracted field work and increased financial costs. Some respondents also expressed discomfort in filling out the questionnaires since there were questions related to government financial management issues, which were sensitive. At the inception of the data collection process, it was envisaged that data would be collected from four types of respondents: civil society organisations, cooperating partners, private sector, and professional bodies. Two of the identified respondent groups, cooperating partners and professional bodies expressed reservation about participating. This meant that the resultant sample constituted mainly civil society organisations and the private sector. The rest were categorised as "other" stakeholders.

Chapter 3.0: Key findings: perceptions on the economy and debt situation

3.1 Selected macroeconomic indicators

In order to gauge opinions on the state of the economy, respondents were asked to proffer their views on movements in key macroeconomics variables: inflation, or prices of staple food items; exchange rate; employment opportunities in the formal and informal sectors and the amount of foreign exchange reserves. Statements were constructed for each one of these variables and respondents were required to indicate the extent to which they either agreed or disagreed with the statement.

Overall, three quarters of the respondents felt that the state of the national economy was unacceptable. Specifically, 75 percent of the respondents disagreed or strongly disagreed with the acceptability of movements in Zambia's economic fundamentals. This was with the exception of the positive feedback received on perceptions on the rising number of informal sector jobs.

Table 2: Stakeholder perceptions on the state of the economy

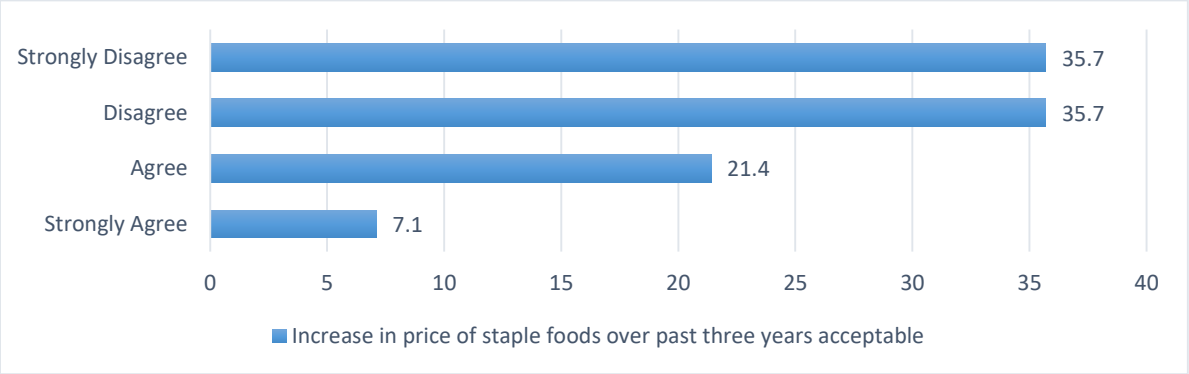
	Strongly Agree (%)	Agree (%)	Disagree (%)	Strongly Disagree (%)	Do not know/ Not sure (%)	Chi-square
Increase in price of staple foods over past three years acceptable	7.1	21.4	35.7	35.7	-	9.25*
The changes in the exchange rate between the kwacha and the dollar in the past three years is acceptable	4.8	19.0	45.2	28.6	2.4	26.33*
there has been an increase in the number of job opportunities in the formal sector over the past three years	-	26.2	26.2	35.7	11.9	4.85
there has been an increase in the number of job opportunities in the informal sector over the past three years	19.5	56.1	12.2	-	12.2	21.73*
the amount of national foreign reserves have improved in the past three years	2.3	11.6	41.9	23.3	20.9	18.74*

*=significant at the 5 percent level (n=42)

Movements in the Inflation Rate

The annual rate of inflation over the past three years had fluctuated from as low as 6.5 percent in April 2013 to a high of 22.90 percent in February 2016, averaging 10.48 percent between January 2013 and September 2016[5]. When asked whether the increase in the price of staple foods over the past three years was acceptable, about seven in every ten respondents either disagreed (35.7 percent), or strongly disagreed (35.7 percent)- Figure 1.

Figure 1: Perception on acceptability of movements in the inflation rate between 2013 and 2015



When asked why they found the increase in the price of staple foods over the last three years unacceptable, most respondents said increases in prices of staple foods eroded their incomes' purchasing power and consequently their standards of living. For example, one respondent noted that, "the *prices of essential commodities have risen disproportionally to the incomes of the majority of citizens, hence subjecting many to poverty conditions*". Another respondent said, "*Maize is locally produced though the cost of doing business in the country is currently high. It is not a reason enough to have the price of staple food rise this way. This has affected the cost of living".*

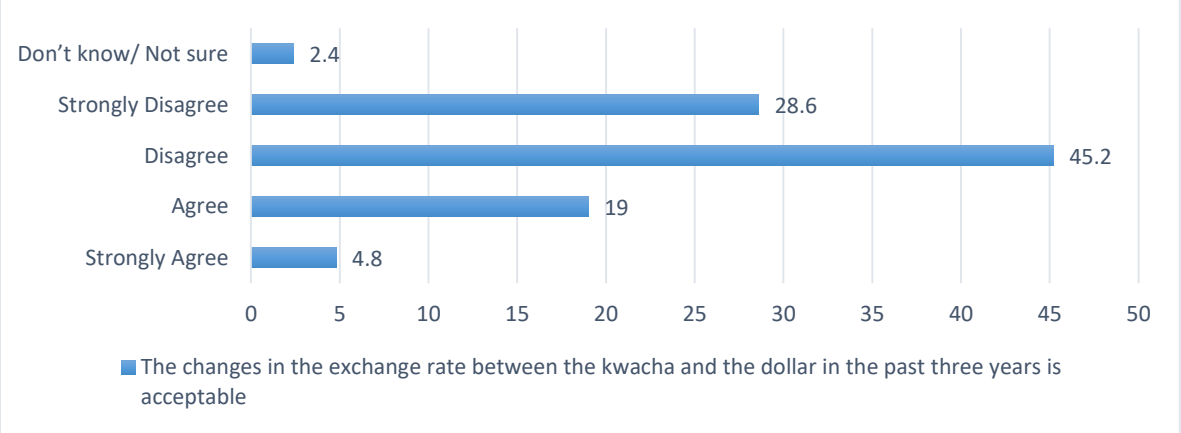
Movements in the Exchange Rate

The exchange rate in Zambia has been volatile over the past three years and has averaged K7.48 to 1 USD between January 2013 and September 2016[6]. There was a sharp depreciation of the Zambian Kwacha against major currencies in 2015, which was attributed to external global market changes,

[5] Bank of Zambia, 2016, Statistics Fortnightly: Lusaka, Zambia
[6] Bank of Zambia, 2016, Statistics Fortnightly: Lusaka, Zambia

with the exchange rate rising to a high of K12.55 per US dollar in October 2015. When asked whether the exchange rate between the kwacha and the dollar in the past three years was acceptable, almost half disagreed (45 percent) and close to a third (28.6 percent) strongly disagreed. Overall, seven in every ten respondents found the movement in the exchange rate unacceptable (Figure 2).

Figure 2: Perception on acceptability of movements in the exchange rate between 2013 and 2015



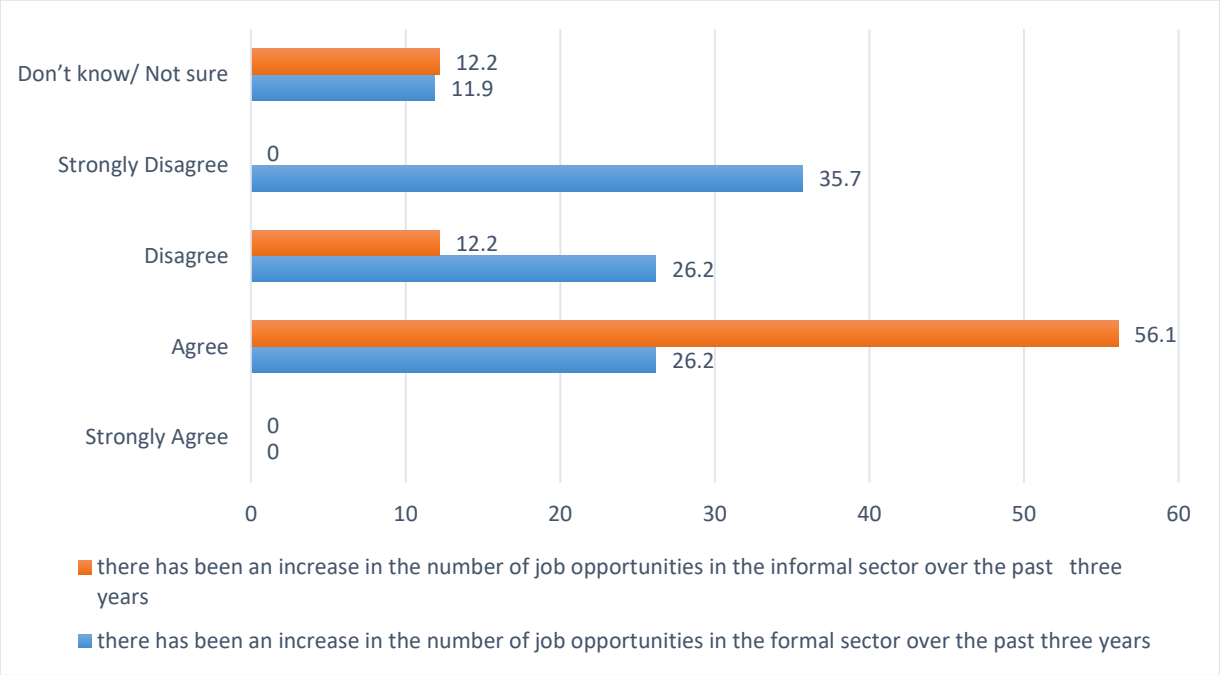
The most recurrent reason why respondents found the changes in the foreign exchange rate unacceptable was that export earnings were not being repatriated to Zambian banks and so the economy was being under-capitalized leading to weakening in the value of the kwacha against major currencies. According to one respondent, "*In as much as the global economy has been affected, Zambia has not put in place policies that will protect the exchange rate. There has to be strict forex policy to restrict money transfer out of the country.*" Another respondent noted that *"despite the fall in copper prices, the currency should have been cushioned and the country put up other strategies such as diversifying the economy and addressing shortages of energy.* Therefore, while acknowledging that there was a global scale down of commodity prices that might have influenced the value of the kwacha against major currencies, there was a feeling among majority of respondents that the impact of the external factors should have been moderated by a firm check on the externalization of copper export earnings.

Changes in Employment Levels

Job creation has been one of the main focus of the Government and it appears as one of the focus areas in National Development Plans. Over a third (37 percent) of the respondents strongly disagreed, while 26 percent disagreed that there had been an increase in the number of formal sector job

opportunities over the past three years (See Figure 3). The respondents' views were more favourably about the growth of job opportunities in the informal sector (a combined total of 76 percent either strongly agreed or agreed that there had been an increase in job opportunities in the informal sector). This is in line with findings from the Labour Force Survey which indicate low formal sector employments opportunities of 16 percent against 84 percent employment levels in the informal sector[7].

Figure 3: Perception on movements in job opportunities in the formal and informal sector



Most of the respondents were generally agreed that there were very limited formal employment opportunities in the economy, which was attributed to poor economic performance, employment freeze in the public sector, and the mismatch between the labour and available employment opportunities. Special mention was also made of youth unemployment, which they observed had been exacerbated by the upwards adjustment in the retirement age. One respondent noted that *'companies are failing to employ because of limited [business opportunities] ……instead they are reducing the work force'*. While noting the limited employment opportunities in the formal sector, the respondents observed that employment had risen in the informal sector; they specifically mentioned the construction industry as a sector which had experienced marked growth. Special mention was also made of the increase in the

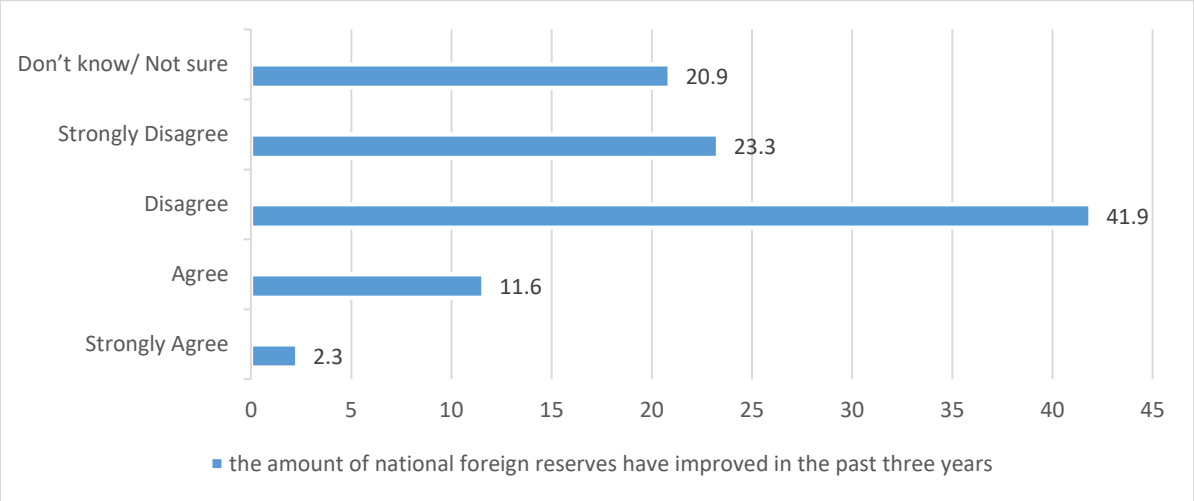
[7] CSO, 2015, Zambia Labor force survey; Lusaka.

construction of shopping malls, which accorded youth employment opportunities. For instance, a respondent observed that, "*in the informal sector, yes I agree [jobs have been created] because we have seen a rise especially in the construction industry. But in the formal sector it has been the opposite*". Another respondent explained that, '*there is a lot of construction in the informal sector [shopping malls] that are helping mainly the school leavers to earn a living but this is mostly on part time basis or for a short period*'. As such, there was a feeling that jobs in the formal sector had steadily diminished while employment opportunities in the informal sector had expanded.

Changes in Foreign Exchange Reserves

With regard to international foreign exchange reserves, respondents disagreed with the statement that there had been improvements in the foreign exchange reserves over the past three years. The majority either disagreed (42 percent) or strongly disagreed (23 percent). As shown in Figure 4, 11.6 percent of the respondents agreed that there had been improvements in the international foreign exchange reserve levels while 20.9 percent were unsure about the movements.

Figure 4: Perceptions on movements in foreign exchange reserves



When asked why they had disagreed with the statement that the levels of national foreign exchange reserves had improved in the past three years, most respondents cited the fluctuations in the exchange rate and the steep depreciation of the Kwacha as reasons for them disagreeing with the statement. They also cited perceived unnecessary expenditure by the executive as well as the increased level of government borrowing, both domestically and internationally as other reasons for their disagreement. One respondent for instance noted as follows: '*if there was an increase, we would not see fluctuations in kwacha*

value. Another responded explained that, '*we are not exporting a lot of goods to earn a lot of foreign exchange. There is a lot of imported goods which deplete the foreign exchange reserves'*.

3.2 Debt contraction before and after the HIPC period

With the experience of the HIPC, the recent rise in external debt has ignited debate. There are fears that the country may slide into another debt trap, from which recovery may not be as easy as it was in the past. To gauge perceptions on debt contraction, the respondents were asked whether the way in which Zambia acquired debt was transparent; the extent to which the Government adequately explained the process of acquiring debt to the general public; and whether there were visible developments to show for the borrowed moneys.

Respondents did not generally agree with the transparency of the debt acquisition process or that Government had adequately explained the process of debt contraction to the general public (Table 5). However, the majority agreed that there were visible developments resulting from the debt.

Table 3: Views on process of contracting and utilisation of borrowed money

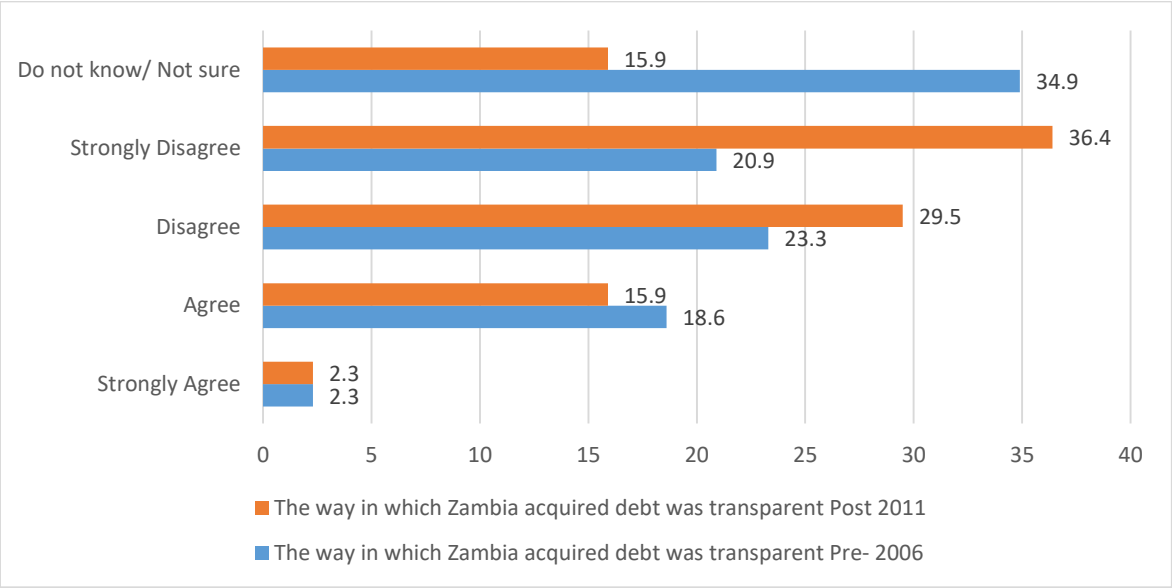
		Strongly Agree	Agree	Disagree	Strongly Disagree	Do not know/ Not sure	Chi-square
The way in which Zambia acquired debt was transparent	Pre-2006	2.3	18.6	23.3	20.9	34.9	11.77*
	Post 2011	2.3	15.9	29.5	36.4	15.9	15.55*
The Government adequately explained the process of acquiring debt to the general public	Pre-2006	-	-	36.4	34.1	29.5	0.318
	Post 2011	4.8	7.1	59.5	21.4	7.1	44.67*
There were visible developments to demonstrate how the borrowed money was used	Pre-2006	2.3	40.9	25.0	18.2	13.6	18.04*
	Post 2011	2.4	45.2	31.0	14.3	7.1	26.57*

*=significant at the 5 percent level; n=42

Transparency of Debt Acquisition – Pre 2006 versus post 2011

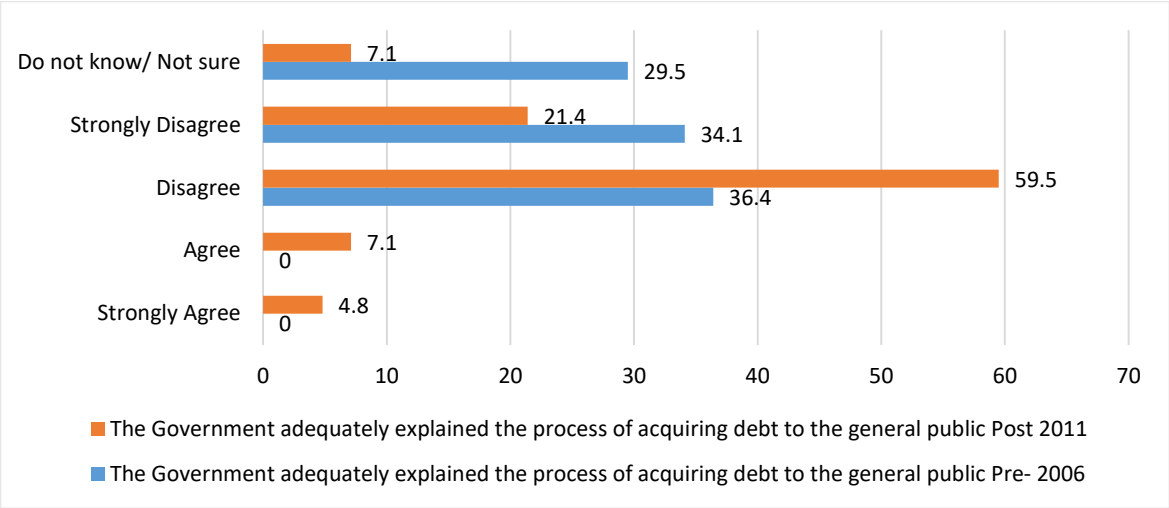
Respondents were generally of the view that debt contraction both before and after HIPC had been obscure. When asked if the way in which Zambia acquired debt was transparent, either before or after the HIPC completion point, most respondents either disagreed or strongly disagreed with this statement. Specifically, 65.9 percent of the respondents felt that the way in which Zambia acquired debt after 2011 was not transparent. For the period before 2006, however, only 44.2 percent of the respondents felt that the process of debt acquisition was not transparent. Clearly, the lack of transparency in the way debt was being acquired was associated with the period after 2011(Figure 5).

Figure 5: Perceptions on transparency of process of obtaining debt



When probed to explain reasons for perceived lack of transparency in debt acquisition in the period after 2011, one respondent observed that '*the Government is telling the country that they have acquired debt but the terms and conditions of the debt and how it will be used are not clearly stated*.' Another respondent noted that, '*the contracts which specify the terms of borrowing are not made available to the people who pay the debt (tax payers) …only superficial information is availed to the public after acquisition is completed*.' Another respondent explained that '*the Government has failed to disclose the details concerning the debt*.'

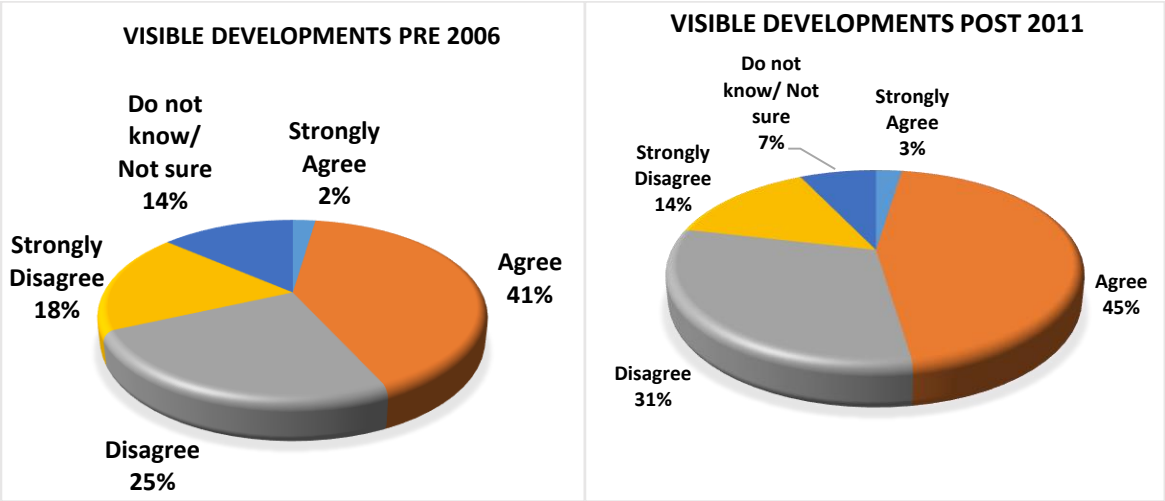
Figure 6: Perception on Government explanation of debt procurement process



When asked to explain why they felt that government was not adequately explaining the debt contraction process, one participant noted that '*No public or parliamentary discussions are held before the dent is contracted*'. Another observed that '*when they fail to pay that is when most people are informed that the country has debt with foreign countries…at the initial stage they [government] are quiet about it*'.

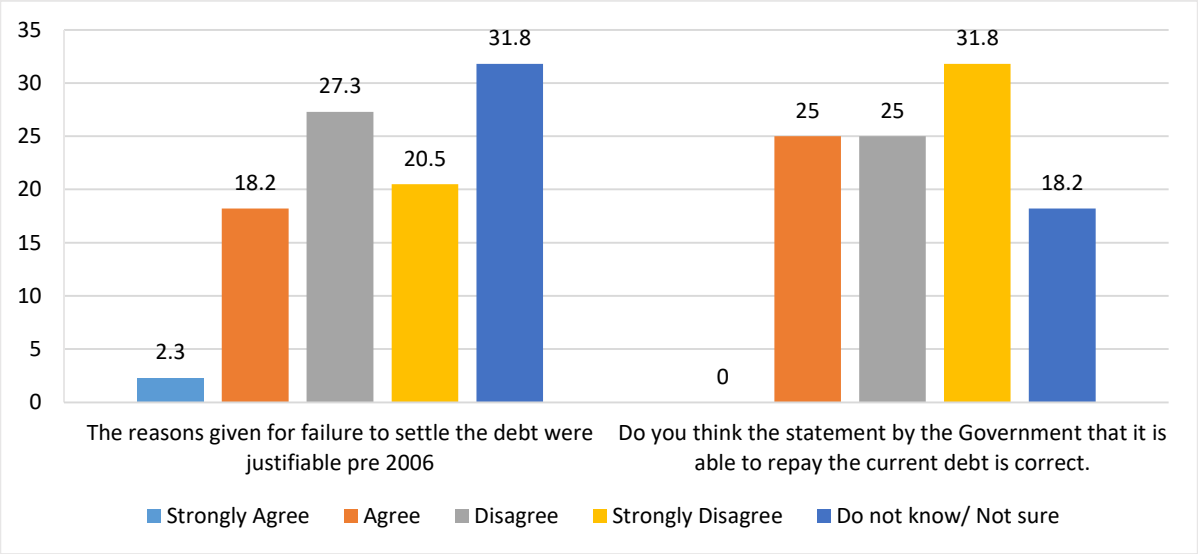
Respondents were also asked to indicate whether they felt that there were visible developments associated with the external debt in the country. Only 43 percent of the respondents associated the contraction of debt to visible developments in the period before 2006 while 48 percent associated the debt with visible developments in the post 2011 period (Figure 7). The differences in the proportion of those who agreed that there were visible developments to show how the borrowed money had been used were minimal (43 percent for the pre-2006 period and 48 percent for the post-2011 period). When asked to cite examples of visible developments associated with the pre-2006 external debt, most cited road infrastructure developments. Similarly, for the post 2011 period road infrastructure and health and educational infrastructure were cited.

Figure 7: Perception on visible developments from loans obtained



Respondents were further asked to indicate whether the reasons given for failure to repay the external debt prior to 2006 were justified. Slightly less than half of the respondents either disagreed or strongly disagreed that the reasons given for failure to repay the debt pre-2006 were justifiable. Respondents were also asked to either agree or disagree with statement by the Government that it was able to repay the current debt. More than half (57 percent) of the respondents disagreed that the Government was able to repay the current debt (Figure 8). Asked why they disagreed with the government statement that it would be able to repay the debt, most respondents pointed to a lack of a plan or deliberate policy for liquidating the external debt. In this regard, a respondent explained that prior to debt contraction there was '*no debt servicing planning done to guide government on how it would repay the contracted dent.*' Another respondent noted that '*if concepts and initiatives such as the sinking fund are followed, then government can be able to pay back…although this will also depend on whether investments can spark further development and investment.*' Generally, therefore, the lack of a debt repayment plan made respondents doubt whether the government had the ability to repay the growing external burden.

Figure 8: Perception on Government ability to repay debt



3.3 Institutions involved in acquiring and managing debt

The Executive and Legislative wings of the Government have specialized roles to play in the contraction and management of national debt. The Opinion Poll, therefore, sought to assess the views of respondents on the performance of the Ministry of Finance, Central Bank and the National Assembly. With respect to the Ministry of Finance, the questions pertained to whether the reasons for acquiring debt and raising the debt ceiling were correct, and whether a road-map for repaying the debt was credible. Respondents were also asked to give their opinion on how the resources acquired had been utilized.

Ministry of Finance

The poll found that 50 percent of the respondents felt that the Ministry of Finance had not proffered correct reasons for acquiring more external debt compared to 36.3 percent who felt that correct reasons were being given for acquiring more debt. About 13.6 percent were not sure. Most respondents, therefore, felt that the government was not giving correct reasons for justifying more debt acquisition (Table 3). Asked to explain why this was so, most respondents felt that the rate at which the external debt was growing was not being explained adequately, suggesting that there was

more than met the eye. One respondent observed that, *'[the Government] has attempted to offer appealing justifications but in practice they have acted differently'*. Another respondent observed that *'the ministry has not conclusively explained the modalities of acquiring more debt to the general public… all people hear it is within allowable levels of borrowing… yet these levels are not well elaborated.'*

Table 4: Respondent's views on the performance of the Ministry of Finance

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do not know/ Not sure	Chi Square
The Ministry of Finance has given correct reasons for acquiring more debt	4.5	31.8	29.5	20.5	13.6	11.23*
The reasons that the Ministry of Finance has given for the recent increase in the debt ceiling from K35 billion to K60 billion are justified	2.3	22.7	27.3	25.0	22.7	8.95
The Ministry of Finance has provided a clear road map on how they plan to repay the debt	-	9.1	38.6	40.9	11.4	15.45*
The Ministry of Finance has provided clear evidence on how the recently acquired debt has been used	-	16.7	40.5	31.0	11.9	8.66*

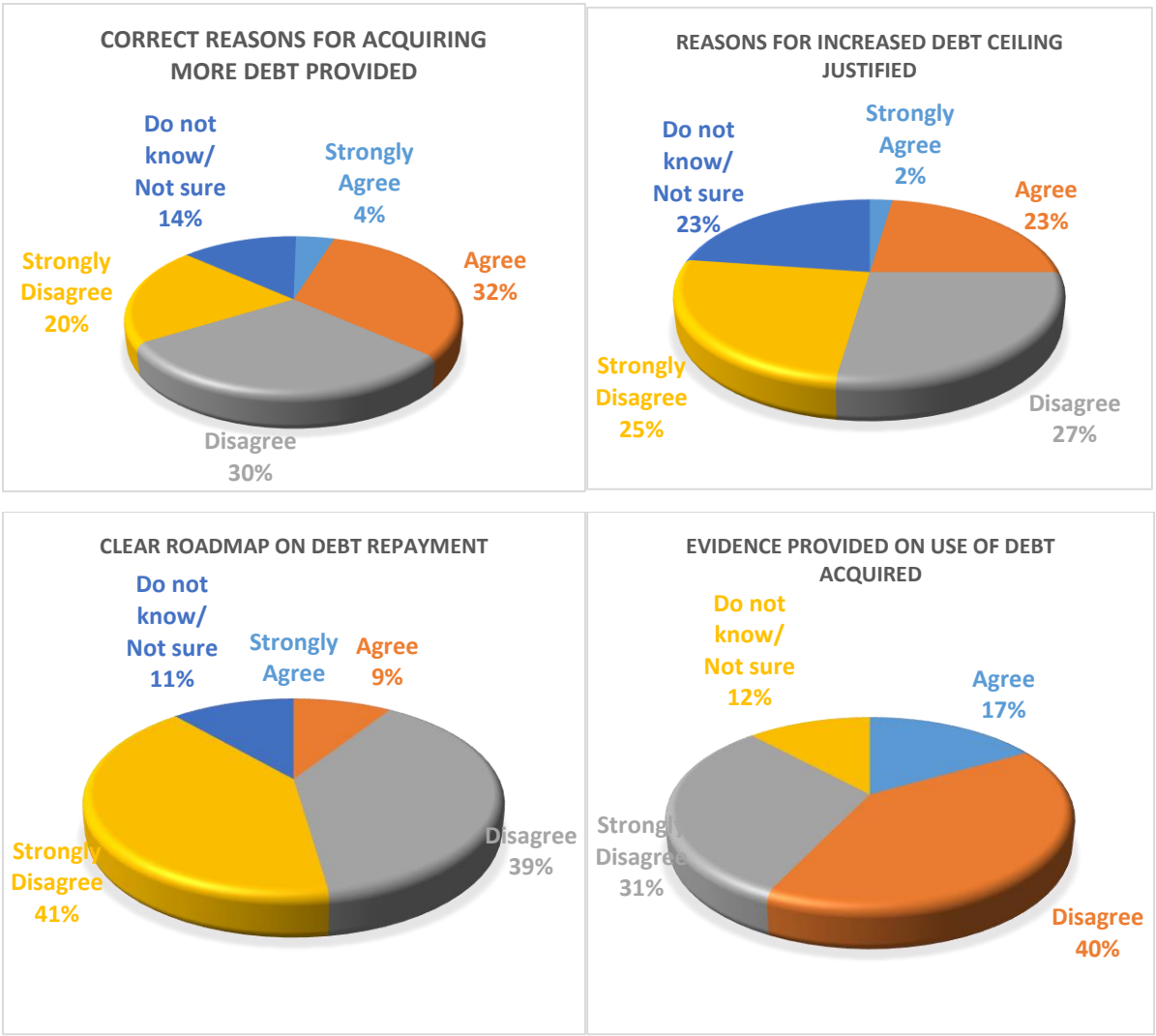
*Significant at the 5 percent level (n=42)

The respondents were also asked whether the reasons that the Ministry of Finance gave for raising the debt ceiling from K35 billion to K60 billion[8] were justified. The majority of respondents (57 percent) disagreed or strongly disagreed compared to 25 percent who agreed or strongly agreed. About 23 percent were not sure (Figure 9). The main reason given for disagreeing with government's reasoning for increasing the debt ceiling was that much of the debt being acquired was going towards consumption expenditure as opposed to productive ventures. Thus, respondents felt that there was no justification to increase the debt ceiling threshold. Asked to either agree or disagree with the

[8] Insert narrative to indicate the two debt ceilings that were passed during the last NA….

statement that the Ministry of Finance had provided a clear roadmap on debt repayment, an overwhelming majority of respondents (80 percent) disagreed, or strongly disagreed with this statement, noting that there was no debt management strategy in place, or that at least this was not available in the public domain. One respondent explained that a small initiative that existed was the sinking fund, but that this was just a drop in the ocean. '*The sinking fund is a small initiative that cannot clear the external dent stock*', explained a respondent.

Figure 9: Perception on performance of the Ministry of Finance on debt procurement process



With regard to the provision of evidence on how the acquired loans had been utilized, 80 percent of the respondents disagreed or strongly disagreed with the statement that the Ministry of Finance had provided clear evidence on how the debt being acquired was being utilized. Only about 17 percent

agreed with the statement, while 12 percent were not sure (Figure 9). In this regard, a respondent noted that '*detailed and concrete information has not been shared on the cost of infrastructure developments taking place*', adding that there were some grey areas which still required government to explain to the people. Another respondent wondered that '*yes, some development projects are visible, but to what extent do people know how much money was used for each*?'

Bank of Zambia

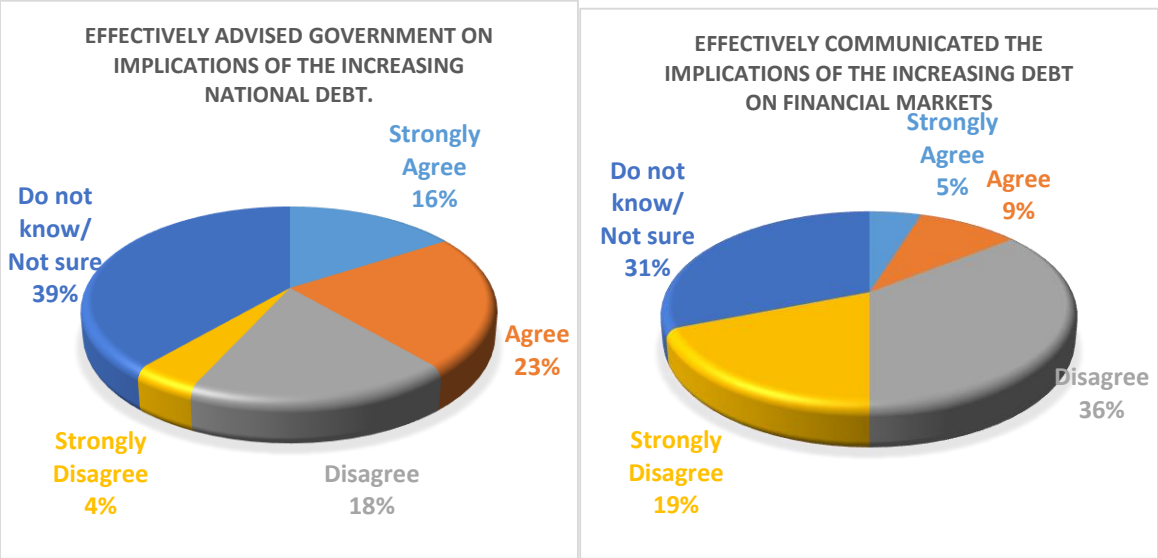
The respondents were also asked to express their opinions on whether the Bank of Zambia had effectively advised the Government on the implications of the increasing national debt. Most respondents (38 percent) were not sure about this. About 22.7 percent felt that the central bank had not effectively advised government while 18.6 percent agreed with the statement. Slightly over half (54.7) percent of the respondents were of the view that the Bank of Zambia had not effectively communicated the implications of the increasing debt on financial markets. The majority (55 percent) disagreed or strongly disagreed that the Bank had done this, with only 14 percent either **agreeing or strongly agreeing.**

Table 5: Respondent's views on the performance of the Central Bank

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do not know/ Not sure	Chi square
The Bank of Zambia has effectively advised the Government on the implications of the increasing national debt.	15.9	22.7	18.2	4.5	38.6	13.50*
The Bank of Zambia has effectively communicated the implications of the increasing debt on financial markets	4.8	9.5	35.7	19.0	31.0	14.90*

*Significant at the 5 percent level, n=40

Figure 10: Perception on the performance of the Central Bank



The National Assembly

Respondents were asked to either agree or disagree with the statement that the National Assembly had carried out its oversight role in the process of acquiring debt. About 53.5 percent of the respondents disagreed with this statement; they noted that the National Assembly had not effectively carried out its oversight role. Only about 14 percent agreed that the National Assembly was effectively providing oversight on the debt contraction process. About 32 percent were not sure. Respondents were also asked to either agree or disagree with the statement that the National Assembly had effectively carried out its oversight role in debt management. Most respondents (61.9 percent) felt that National Assembly had not effectively carried out its oversight role in debt management- Table 8

The perceived ineffective oversight role of National Assembly in both debt acquisition and management could be attributed to the fact that most loans acquired by the Ministry of Finance are contracted without the knowledge of Parliament. For this reason, it is rare that the National Assembly challenges the Executive Arm of Government on debt acquisition, debt use, debt management and debt repayment strategies. In fact, previous clauses in the national constitution did not provide specific powers for the National Assembly to play an active oversight role in debt contraction. This shortcoming was corrected through the 2016 Constitutional amendments, by…...

Table 6: Respondent's views on the performance of the National Assembly

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do not know/ Not sure	Chi Square
The National Assembly has effectively carried out its oversight role in the process of acquiring debt	2.3	11.6	25.6	27.9	32.6	13.62*
The National Assembly has effectively carried out its oversight role in debt management	-	9.5	40.5	23.8	26.2	8.09*
The National Assembly's passing of the bill to increase the debt threshold level was justified	4.8	16.7	21.4	40.5	16.7	14.19*
The National Assembly has adequately communicated to the constituencies the rationale for increasing the threshold	-		45.2	40.5	14.3	7.00*
The MPs have effectively communicated to the constituencies how the recently acquired internationally obtained loans have been utilized.	-	4.8	40.5	45.2	9.5	21.81*
The National Assembly has effectively communicated to the constituencies how the new internationally obtained loans will be utilized.	-	2.4	38.1	47.6	11.9	22.95*

*Significant at the 5 percent level, n=40

Further, respondents generally perceived the National Assembly negatively on all the aspects of debt management. About 86 percent either disagreed or strongly disagreed that the National Assembly had adequately communicated the rationale for increasing the threshold. In the same vein, almost 90 percent (41 percent disagreed and 45 percent strongly disagreed) disagreed that the National Assembly had adequately explained to the constituencies how the recently acquired loans had been utilized. In terms of playing its oversight role over debt contraction, the National Assembly was poorly rated. Over half of the respondents either disagreed (26 percent) or strongly disagreed (28 percent) that the National Assembly had performed well in this regard. Only 19 percent either agreed or strongly agreed that the National Assembly had effectively carried out its oversight function in debt acquisition.

The reasons for this unfavorable perception of the of National Assembly ranged from the inability of the National Assembly to preside over the Executive Arm of Government to capacity challenges to understand the intricacies and details of external debt and domination of the National Assembly by the ruling party.

3.4 Sustainability of the current national debt

The respondents were asked a series of questions to assess their opinions on the sustainability of current debt level. The questions included determining whether the national debt would affect positive future GDP growth, ability of the Government to meet debt service obligations and settling the principal amounts owed, whether the Government would default, risk of the country falling into another debt trap, and the whether the international community would be willing to cancel the national debt, as happened in the past. Table 9 presents the results.

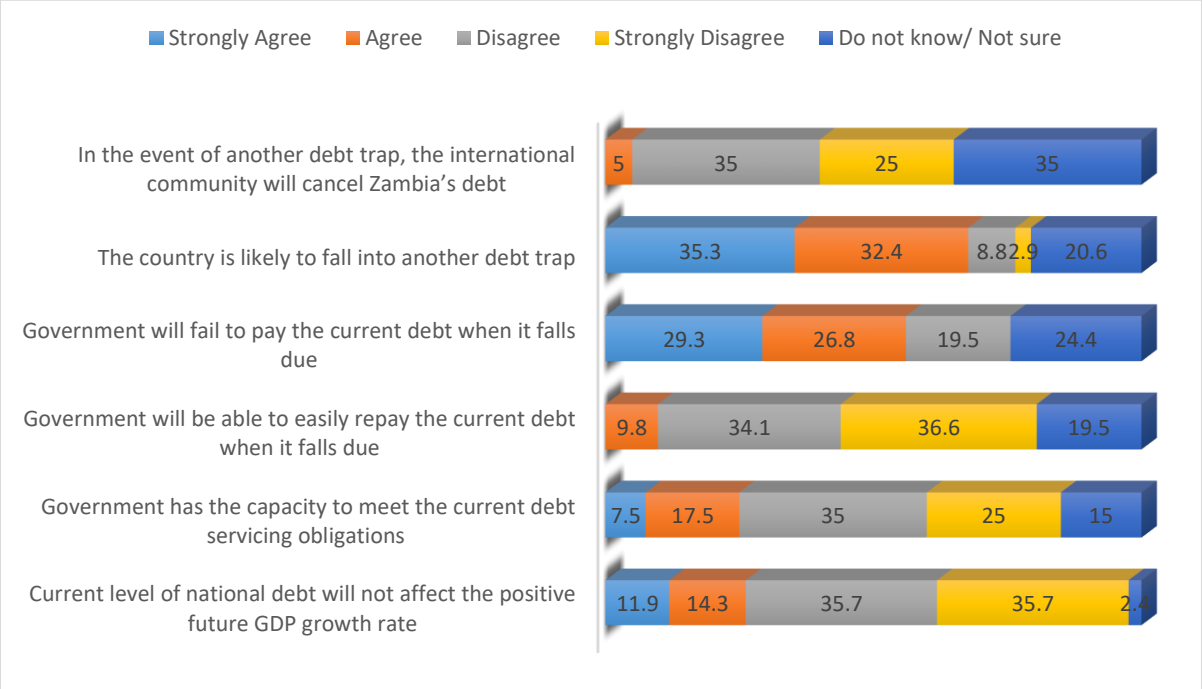
Table 7: Opinions on the sustainability of the national debt

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do not know/ Not sure	Chi-Square
Do you think that the current level of national debt will not affect the positive future GDP growth rate	11.9	14.3	35.7	35.7	2.4	18.95*
Do you think the Government has the capacity to meet the current debt servicing obligations	7.5	17.5	35.0	25.0	15.0	8.75*
Do you think the Government will be able to easily repay the current debt when it falls due		9.8	34.1	36.6	19.5	7.87*
Do you think the Government will fail to pay the current debt when it falls due	29.3	26.8	19.5		24.4	0.85
Do you think the country is likely to fall into another debt trap	35.3	32.4	8.8	2.9	20.6	13.65*
Do you think in the event of another debt trap, the international community will cancel Zambia's debt		5.0	35.0	25.0	35.0	9.6*

*Significant at the 5 percent level, n=40

The results show that the respondents had generally negative views on the effects of the national debt and were of the view that Government would not be able to repay the national debt, and chances for debt cancellation were low.

Figure 11: Opinions on the national debt sustainability



On whether the current debt level would not affect positive growth of economy, three quarters (71 percent) either agreed or strongly agreed. Only 14 percent and 10 percent agreed and strongly agreed that growth would not be affected. Slightly over half (55 percent) either disagreed or strongly disagreed that Government had the capacity to meet the current debt servicing obligations. A quarter of the respondents either agreed or strongly agreed that the country had the capacity to meet the debt servicing obligations.

An even higher proportion (71 percentage) of the respondents thought the Government would not be able to easily repay the debt once it matures. Two thirds of the respondents were of the view that the Government will fail to pay the current debt once it is due. In a similar vein, over two thirds (66 percent) of the respondents were of the view that the country would most likely to fall into another debt trap. Only 11 percent thought that country would not fall into another debt trap. When asked whether the international community would come to Zambia's aid and cancel the debt like in the past, 55 percent said either disagreed or strongly disagreed, with only 5 percent agreeing.

When asked to explain why they thought external debt would negatively affect economic growth, the common explanation proffered was that a huge part of the national GDP would be allocated to servicing of debt, as was the case before and that this would adversely impact the future growth of GDP. Admittedly, domestic resources would be crowded out to service the external debt, thereby limiting the capacity of the domestic economy to stimulate credit.

3.5 Comparison of external and domestic debt

On whether the international debt had increased more than domestic debt, close to half of the respondents did not know, while 38 percent either agreed or strongly disagreed. Slightly over 50 percent either agreed or strongly agreed that international debt created more difficulties for the local economy than domestic debt, with 24 percent either disagreeing or strongly disagreeing.

Table 8: Perceptions on national domestic debt versus international debt

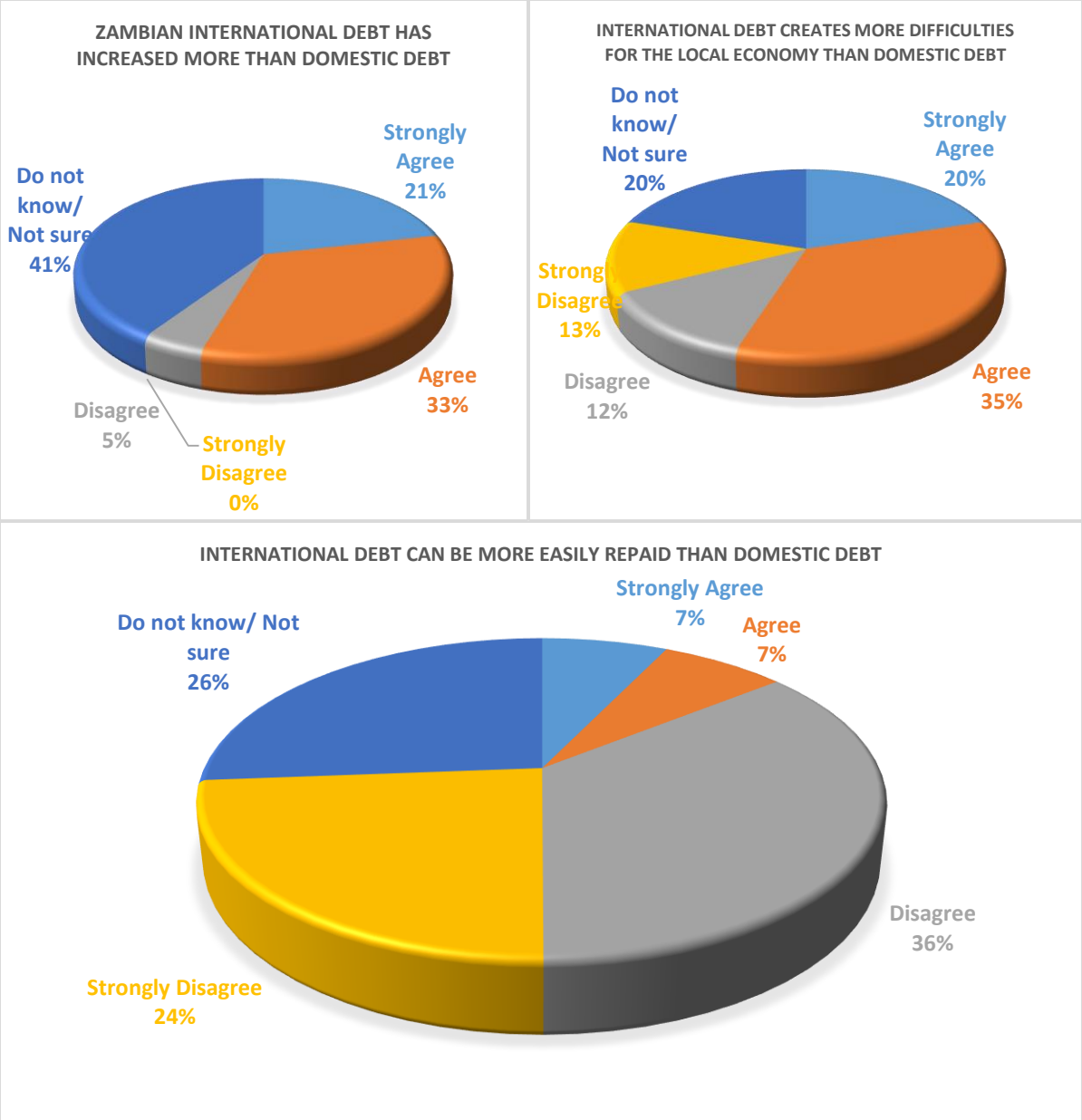
	Strongly Agree	Agree	Disagree	Strongly Disagree	Do not know/ Not sure	Chi-quare
Do you think Zambian international debt has increased more than domestic debt	21.4	33.3	4.8		40.5	12.28*
Do you think international debt creates more difficulties for the local economy than domestic debt	20.0	35.0	12.5	12.5	20.0	6.75
Do you think international debt can be more easily repaid than domestic debt	7.1	7.1	35.7	23.8	26.2	13.24*

*Significant at the 5 percent level, n=42

Close to two thirds (59 percent) of the respondents were of the view that international debt could be more easily repaid than domestic debt. The proportion of those who either agreed or strongly agreed was 14 percent. When asked to explain why they felt that international debt could not easily be paid, one respondent explained that '*international debt is in US dollars which increases with depreciation in the foreign exchange rate*.' Another explained that '*domestic debt is in local currency and if need be, new bank notes can be*

printed to offset domestic debt', notwithstanding that this practice is inflationary. Another respondent added that, '*international debt is in forex and is dependent on Zambia's foreign exchange earnings*'.

Figure 12: Perceptions on domestic and international debt



Chapter 4.0: Strategies to improve National Debt Management

This opinion poll shows that the respondents generally held negative views about the debt contraction and management processes. Stakeholder's opinions reflect a lack of trust and confidence in the system. A sound debt management strategy that address the following is of the essence: transparency and accountability; institutional framework; risk management; and government securities.

4.1 Transparency and Accountability

Clarifying roles and responsibilities of agencies involved in debt management. In order to ensure enhanced transparency and accountability, there should be clarity of roles, responsibilities and objectives of institutions responsible for debt management in the country. In this regard, the allocation of responsibilities among the Ministry of Finance, the Central Bank, and the National Assembly, should be publicly disclosed. Further, the objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained.

Public availability of information on debt: The public should be provided with information on the past, current, and projected debt activity, including its financing, and the consolidated financial position of the government. The government should regularly publish information on the stock and composition of debt and financial assets, including their currency, maturity, and interest rate structure.

Ensuring integrity of agencies involved in debt management: In order to allay the perceived lack of confidence in agencies entrusted with managing national debt, it is recommended that debt management activities be audited annually by external auditors.

4.2 Institutional Framework

Clarification of debt contraction powers and limitations: The legal framework should clarify the powers and limitations of institutions involved in debt contraction; authority to borrow and to issue new debt, invest, and undertake transactions on the government's behalf. The organizational framework for debt management should be well specified, and ensure that mandates and roles are well articulated.

Management of internal operations: Risks of government losses from inadequate operational controls should be managed according to sound business practices, including well-articulated responsibilities for staff, and clear monitoring and control policies and reporting arrangements. Debt management activities should be supported by an accurate and comprehensive management information system

with proper safeguards. Staff involved in debt management should be subject to a code-of-conduct and conflict-of interest guidelines regarding the management of their personal financial affairs. Sound business recovery procedures should be in place to mitigate the risk that debt management activities might be severely disrupted by natural disasters, social unrest, or acts of terrorism.

Monitoring and evaluating national debt: The risks inherent in the structure of the government's debt should be carefully monitored and evaluated. These risks should be mitigated to the extent possible by modifying the debt structure, taking into account the cost of doing so. In order to help guide borrowing decisions and reduce the government's risk, debt managers should consider the financial and other risk characteristics of the government's cash flows. Debt managers should carefully assess and manage the risks associated with foreign-currency and short-term or floating rate debt. There should be cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due.

The pace of borrowing needs to be slowed significantly in order to align resources with the country's absorptive capacity and to ensure the sustainability of debt. Public investment decisions should be monitored to ensure that such projects deliver value for money.

4.4. Risk Management Framework

System for tracking debt risks and costs: A framework should be developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the government debt portfolio. To assess risk, debt managers should regularly conduct stress tests of the debt portfolio on the basis of the economic and financial shocks to which the government and the country more generally are potentially exposed.

Scope for active management: Debt managers who seek to manage actively the debt portfolio to profit from expectations of movements in interest rates and exchange rates, which differ from those implicit in current market prices, should be aware of the risks involved and accountable for their actions.

Contingent liabilities: Debt managers should consider the impact that contingent liabilities have on the government's financial position, including its overall liquidity, when making borrowing decisions.

4.5. Government Securities

Ensuring efficiency of government securities: In order to minimize cost and risk over the medium to long run, debt managers should ensure that their policies and operations are consistent with the development of an efficient government securities market.

Portfolio diversification and instruments: The government should strive to achieve a broad investor base for its domestic and foreign obligations, with due regard to cost and risk, and should treat investors equitably.

Transparent primary market operations: Debt management operations in the primary market should be transparent and predictable. To the extent possible, debt issuance should use market-based mechanisms, including competitive auctions and syndications.

Sound secondary market operations: Government and the central bank should promote the development of resilient secondary markets that can function effectively under a wide range of market conditions. The systems used to settle and clear financial market transactions involving government securities should reflect sound practices.

4.6 Conclusion

In a broad sense, the evidence of this Opinion Poll suggest that stakeholder perceptions on the rising national debt are largely unfavourable and not optimistic in relation to questions of debt sustainability. In large part, the Opinion Poll has established that this could be attributed to the post-HIPC government high propensity to borrow costly from international financial markets and other private sources that are altogether acting to push the national economy towards another debt trap. Stakeholder perceptions also suggest that the debt contraction process lacks transparency and accountability and information on the size and structure of national debt is limited; this raises the need clarity of roles, responsibilities and objectives of institutions responsible for debt contraction, utilisation and management.

The Opinion Poll has allowed a quick assessment of stakeholder perceptions of Zambia's rising debt than has previously been put forward in much of the existing literature and debates on Zambia's national debt. This approach not only contributes to knowledge of how (in)effective public debt managers are in making public information on debt management, but has also facilitates gauging of stakeholders' perceptions of risk inherent in the burgeoning debt burden. Further, it forms a basis for a national debt management that is anchored on improved transparency and accountability, effective institutional, improved debt sustainability and risk management, and an efficient market for government securities.

The Opinion Poll concludes that that whilst in a conventional sense, there might be nothing wrong with borrowing in order to augment domestic resources, Zambia's rising national debt suggests a trend towards another debt trap. In this regard, there is a strong case to pause, reflect and adopt strategies to improve national debt management and thus avert another national debt crisis, from which recovery will not be easy.

ABOUT US

Established in 1938, the Institute of Economic and Social Research (INESOR) is an interdisciplinary Social Science Research Centre of the University of Zambia (UNZA). The Institute conducts basic and applied research in six thematic areas, namely; Agriculture and Rural Development, Economic and Business, Governance, Health Promotion, Socio-Cultural and Urban Development. It is also involved in:

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- Consultancy
- Short courses
- Community and public service
- Documentation Centre

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University of Zambia
Institute of Economic and Social Research
P. O. BOZ 30900
Lusaka, Zambia
Tel; +260-211 294131/294673
Cell: +260 974 011483/950 915085
Fax: +260 211 294291
Email: director.inesor@unza.zm
Website: www.unza.zm
Follow us on www.facebook.com/inesor,unza