

## REPUBLIC OF ZAMBIA

**Follow Up Questions and Answers***Disclaimer*

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## REPUBLIC OF ZAMBIA

## Follow Up Questions and Answers

Following the publication of a first set of Q&As on 07 October 2020, the Ministry of Finance of Zambia received additional questions from various parties in relation to the presentation held by webcast on 29 September 2020 and subsequent dialogue initiated with certain groups of creditors as part of the Government's creditor engagement strategy.

In this document, the Ministry of Finance of the Republic of Zambia seeks to answer those questions that were raised. Please note that our responses to the questions are subject to the full set of disclaimers at the end of this document.

- **FISCAL**

**1. Regarding the original 2020 budget, what was the specific revenue item amounting to ZMW 6.75bn which was entered as a revenue item, and what happened to it?**

Government anticipated the conversion of shares from ordinary to preferential in ZCCM in 2020 with an anticipated dividend of the said K6.7 billion. This was not realized.

**2. Would it be possible to provide clarity on the additional USD 300m to be spent in 2020?**

The Constitution of Zambia under Article 203 (2)(3) provides for Supplementary Estimates of Expenditure mainly to cater for additional expenditure requirements that may arise and where the amount initially appropriated in the annual Budget is insufficient to meet the expenditure in that financial year.

In line with this Constitutional Provision, Government, through the Minister of Finance has submitted to the National Assembly Supplementary Estimates of Expenditure Number 1 of 2020 for approval. Specific details relating to the Supplementary Estimates of Expenditure are as follows:

(a) Total amount:

The total amount for the proposed Supplementary Estimates is K6.3 Billion.

(b) Source of Funding:

The supplementary Budget is not financed through any extra Budgetary revenues. Rather, it is being financed through realignment of expenditure allocations within the total appropriation in the 2020 Budget, carryover funds from 2019, and donor funds particularly in the Ministry of Health, Ministry of General Education, Ministry of Gender and the Rural Finance Expansion Project under the Ministry of Finance.

(c) Some notable expenditure items to be funded through the Supplementary Estimates include:

- (i) Procurement of drugs under the Ministry of Health;
- (ii) Outstanding third-party payments that were brought forward from 2019 and the cost of additional recruitment of medical personnel in 2020. These are wage bill related expenditure;
- (iii) Dismantling of arrears across various Ministries, Provinces and Spending Agencies; and
- (iv) Strengthen health systems programme in the country – implemented by the Ministry of Health.

- **DEBT**

**3. Arrears, including details on the external arrears reported in the investor presentation (IP) on 29 September, and when these were incurred. Specific questions on this matter include whether the Paris Club was aware of these external arrears when it agreed to reschedule its cashflows and if so when was the Paris Club informed?**

As at end August 2020, Central Government (CG) foreign currency denominated arrears amounted to approx. USD 565 million. Those arrears can be broken down as follows:

- Approx. USD 4 million on multilateral credits
- Approx. USD 57 million on plurilateral credits
- Approx. USD 171 million on bilateral credits
- Approx. USD 332 million on commercial credits

Although no formal engagement was held with the Paris Club Secretariat on external debt service arrears, both the Paris Club and the IMF were well aware of this situation.

The accumulation of external debt service arrears was part of the discussion items with the IMF mission that was held in March 2020 and subsequently in July 2020 as well as during the most recent interactions.

**4. Details on contracted but not yet disbursed project loans, including the projects they are tied to, and with an estimated base-case timeline for disbursements until fully drawn down**

The projected disbursements for 2020 were estimated at USD 867 million compared with approx. USD 1,716 million earlier contemplated. The rest of the undisbursed amounts are expected to be disbursed over a period of ten years, from 2021 to 2030 as per the table below.

The figures in the table below assume that all creditors will fully disburse the current undisbursed amounts. Actual disbursements, however, are expected to change subject to the ongoing creditor engagement as some commercial creditors have stopped disbursing due to accrual of arrears.

The bulk of the undisbursed amounts are for projects in energy, health, communication and transport and housing, water and sanitation.

**Projected disbursements (USD) 2021-2030<sup>1</sup>**

	Unit	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Projected Disbursements <sup>(1)</sup>	USD	680,435,735	675,393,827	645,447,550	637,160,906	498,012,746	397,555,781	259,291,616	90,590,631	49,986,202	29,183,533

**5. Details on outstanding VAT refund arrears, including those owned to mining sectors entities**

The stock of outstanding VAT refund arrears as at End-2019 was ZMW 6.89bn. The disaggregation of the data in terms of what constitutes mining and non-mining refunds will be provided soon after the reconciliation has been done

<sup>1</sup> We do not expect the disbursements to materialize fully particularly with respect to Commercial Creditors

**6. Details of ongoing discussions with other creditors, and liability management scenarios, in the context of inter-creditor equity**

The Government of the Republic of Zambia is progressing in DSSI discussions with official creditors as well as negotiations on similar interim debt service deferrals with a few commercial creditors agreeable to this approach, which the bondholders have already declined in the context of the consent solicitation. In this regard, standstill agreements with CDB and EXIM China have already been announced, while Government has kept accumulating arrears across a large spectrum of commercial creditors, including the bondholders.

The Government of the Republic of Zambia is also working on organizing other group(s) of creditors to facilitate the dialogue and exchange of information going forward in the context of the forthcoming broader restructuring exercise.

**7. With respect to recently announced debt deferrals agreed with other external creditors (including CDB and EXIM China), please clarify whether these are considered part of the DSSI or otherwise, and the terms of the deferral**

The debt referral granted by the Exim Bank of China is part of the DSSI with the suspended amount covering the debt service obligations between May and December 2020.

With regard to the deferral granted by China Development Bank, interest and principal due on 25<sup>th</sup> October 2020 were deferred with the deferred interest payment now payable on 25<sup>th</sup> April 2021 and the deferred principal rescheduled to be repaid from 2022 to 2024.

**8. List of collateralized debt, details on pledged collaterals**

We do not have any physical assets pledged as collaterals under central government debt. The only provisions on some loans were a few facilities tied to escrow accounts for purposes of debt servicing.

**9. Confirmation that no new non-concessional debt was contracted in 2020**

No new non-concessional external debt has been contracted in 2020.

- **IMF**

**10. Details on Status of discussions**

The Government and the IMF are currently in a high-level discussion on the form of support to underpin Zambia's economic recovery efforts. A high-level IMF delegation visited Lusaka on December 7<sup>th</sup> and 8<sup>th</sup>. The IMF is actively looking at Zambia's request for an ECF.

**11. Is the IMF in the process of reworking its DSA and if so, is there any indication that the IMF intends to outline the required broad parameters of a debt restructuring?**

The IMF will be updating its Debt Sustainability Analysis immediately after engagement commences. Though the DSA will inform the need and extent of overall cash and NPV relief that is required to restore public debt sustainability according to the DSF rules, the IMF is not expected to provide specific restructuring parameters.

- **OTHER**

**12. *Energy sector reform plans and other infrastructure and social reform plans***

In the energy sector, focus will be on completion of the cost-of-service study to facilitate cost reflective tariffs, development of regulations for open market access to give opportunities to other off takers in line with the Electricity Act No. 11 of 2019 and revision of pricing mechanisms in the petroleum sub-sector, among others. These reforms are aimed at improving efficiency, transparency and to enhance the sectors' support to economic growth.

Other reforms include strengthening of the project appraisal system for public infrastructure works, expansion of the social cash transfer programme and the shift in the administration of the FISP programme to 100% e-voucher which will reduce government cost of providing inputs to farmers.