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To the News Editor

PRESS RELEASE
For Immediate Release

THE REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF EXTERNAL DEBT STOCK OF THE REPUBLIC OF ZAMBIA FOR THE FINANCIAL YEARS ENDED 31ST DECEMBER 2006 TO 2022

The Acting Auditor General Dr. Ron Mwambwa, has released the Report of the Auditor General on the Audit of External Debt Stock of the Republic of Zambia for the financial years ended 31st December 2006 to 2022, uncovering significant financial discrepancies and other irregularities.

The long span in the audit period for the audit of external public debt was necessitated by the need to have a verified position of the national external debt amid the various conflicting figures as well as show borrowing patterns over the years.

The Report was produced in accordance with Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Public Audit Act No. 8 of 1980 as amended by Act No. 13 of 1994, the Public Finance Act No. 15 of 2004 and the Public Finance Management Act No. 1 of 2018.

The notable key findings raised in the Report are as highlighted below:

a. Increase in External Public Debt

During the period under review, the External Public Debt of the Republic of Zambia increased from US$1.019 billion in 2006 to US$14.071 billion in 2022. During the period from 2006 to 2014, the external public debt stock remained below 30% of GDP which is the allowable threshold for Low Income Countries as prescribed by the World Bank and IMF. However, during the period from 2014 to 2020, there was a significant increase in external public debt stock from 30% to 70% of GDP. In 2022, there was a reduction in debt stock from 70% in 2020 to 49% of GDP.

This irregularity carries serious implications, particularly posing the risk of default on loan repayments for developing economies like ours. Furthermore, it has a negative impact on the

country's credit ratings, which in turn affected the country's economic and financial stability due to reduced investor confidence and reduced investment inflows. The increased borrowings pushed the country into debt distress which impacted negatively on the delivery of public services.

b. Weaknesses in contraction of External Debt – Undrawn Loans (Wasteful Expenditure) The audit further revealed weaknesses in the contraction of external debt in that during the period from 2014 to 2019, the Government signed seven (7) contracts in amounts totalling US$958,348,531.16 to finance various projects. However, the loans remained undrawn as at 31st December 2022 resulting into wasteful expenditure of US$9,506,124.85 in form of financing and arrangement costs. Further, financing and arrangement costs in amounts totalling US$38,866,301.90 were incurred on partially drawn loans totalling US$2,086,938,334.32 contracted between 2010 and 2018.

The weaknesses in the contraction of debt resulted in Government incurring expenditure from which there was no tangible benefit derived.

c. Poor Management of On-Lent Loans
During the period from October 2000 to November 2017, the Government disbursed thirty six (36) on-lent loans to twelve (12) State Owned Entities (SOEs) in amounts totalling US$2,106,260,540.44 for various projects including working capital injection. As at 31st December 2022, the loans had not been serviced.

The failure of State-Owned Enterprises (SOEs) to service the loans lent to them means that the Government is being deprived of valuable financial returns which could be used for public service provisions and subsequently places the burden to settle the primary loan obligations on the Government and the taxpayers thereby straining public finances.

d. Poor Management of Eurobonds

i. **Sinking Fund** - Only amounts totalling US$9,500,000 had been deposited into the Sinking Fund as at 31st January 2024. This is contrary to the Statutory Instrument which stipulated that US$1,263,789,808.92 should have been deposited in the Fund. As a result, the Government defaulted on amounts totalling US$830,625,000 on Eurobond coupons comprising US$750,000,000 in principal amounts and US$80,625,000 in accumulated interest as at 31st December 2022.

ii. **Liquidation of Loans by SMEs** - Out of US$20 million allocated to DBZ for onward lending to SMEs, only thirteen (13) SMEs had fully liquidated their loan obligations while twenty four (24) SMEs were still owing amounts totalling US$13,397,901 and K303,836,036 and had been classified as Non Performing by the Bank.

iii. **Zambia Railways Limited use of Eurobond** - Zambia Railways Limited received amounts totalling K120 million for rehabilitation and maintenance of 444 km rail infrastructure. However, there was failure to:

- obtain refund on failed deliveries valued at US$3.6 million.
- enforce contract for the supply of two (2) mobile flush butt-welding machine valued at US$1,293,822.50 (the two (2) machines had not been delivered or ZRL refunded as at 31st January 2024).
- enforce contract for supply of stone ballast resulting in a loss of K12,650,692 (amount had not been recovered as at 31st January 2024).

The implication of poor management of Eurobond funds is that the country borrowed funds for which no tangible investments were done. Whereas there was no return on the investment, the country will be required to meet the loan repayments and the borrowing costs.

e. Contract for the Supply of Police Uniforms and Riot Gear - US$69,896,630.23

The Supplier Credit Agreement valued at US$69,896,630.23 signed by the Ministry of Finance and National Planning in 2019 with Mikalile Trading Company for the supply of police uniforms, riot kits, traffic kits and other police equipment under the Ministry of Home Affairs and Internal Security revealed the following:

i. The supplier contract on which the Supplier Credit Agreement was based expired in October 2016.
ii. The finance costs in the contract were inflated by US$3,606,471.79.
iii. Despite the supplier not supplying items valued at US$4,555,718.09 as at 31st January 2024, the Ministry of Finance and National Planning had recognised the total value of US$69,896,630.23 as external public debt.

The signing of a supplier credit agreement based on a lapsed contract was irregular and rendered the whole transaction void. Further, recognising of the total value of the supplier credit agreement valued at $69,896,630.23 as external public debt connotes ill motive as the supplier did not supply items valued at $4,555,718.09.

f. Contract for the Supply of School Requisites - US$401,838,720

On 27th October 2017, the Ministry of Education signed a contract with Mikalile Trading Company for the supply and installation of various school materials and equipment at a total contract sum of US$401,838,720. The following were observed:

i. The contract was overpriced by US$59,823,026.16 in that instead of interest being US$78,875,937.84, it was instead stated at US$138,698,964.
ii. The supplier supplied desktops and laptops valued at US$45 million and US$39 million. The authenticity of the equipment supplied was questionable as some were not in working condition at the time of delivery or shortly after delivery.
iii. There was a failure to conduct a needs assessment, leading to significant discrepancies in resource allocation. This resulted in the delivery of computers worth US$4,287,000 to schools without access to electricity, items valued at US$709,854 being supplied to schools lacking suitable infrastructure, and carpentry tools worth US$3,049,600 being distributed to schools that did not offer carpentry programs.
iv. Items in amounts totalling US$79,155,065 were either undelivered, not installed or of poor quality.
v. The desktops and laptops supplied were overpriced by US$52,796,500 and US$43,114,250 respectively.

These observations highlight a concerning implication regarding the Ministry of Education's procurement practices. It indicates that the Ministry may have entered into contracts without conducting proper due diligence. This lack of thorough investigation raises questions about the motives behind such contracts. It suggests a potential disregard for transparency and accountability in the procurement process, which could lead to various issues such as wastage of public funds, ineffective resource allocation and compromised service delivery.

g. Other Findings
The Report also highlights concerns regarding various financial matters, including a questionable advance payment totalling US$33,750,000 for the construction of FTJ Chiluba University; questionable procurement practices related to fertilizers amounting to US$44,854,511.60; questionable acquisition of counterpart funding totalling US$36,730,000 for the three (3) University Colleges Project and wasteful expenditure of US$35,731,614 on the Kalabo-Sikongo Road project.

In order to address these audit findings, Dr. Mwambwa recommends that all borrowing activities adhere strictly to the guidelines outlined in the Public Debt Management Act No. 15 of 2022. This entails ensuring that any proposed debt is first incorporated into the Annual Borrowing Plan before finalising contracts.

Additionally, he suggests that borrowing for project financing must align with the directives set forth in the Public Investment Management Guidelines of 2023, as issued by the Ministry of Finance and National Planning. These recommendations aim to enhance accountability, transparency, and prudent financial management practices within the borrowing and project financing processes.

On contract management, Dr. Mwambwa recommends that the Ministry of Finance and National Planning as well as implementing Ministries and Entities should ensure that where there is supply of goods and services or construction of infrastructure, debt is recognised upon issuance of fully approved interim payment certificates and acceptance certificates.

He also recommends that the Ministry of Finance and National Planning should tighten controls regarding contraction of loans through Supplier Credit Agreements by ensuring that the loans are only recognised as debt upon successful delivery of goods or services.

Dr. Mwambwa has called for remedial action to be taken on the report to serve as a deterrence to would be offenders.

For further details, the External Public Debt Audit report can be accessed on the Office website www.ago.gov.zm.

Original Signed

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