



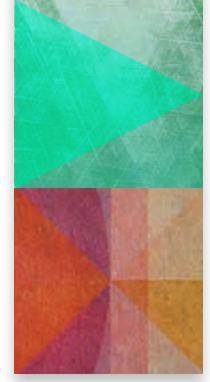
Zambia

**INFRASTRUCTURE
PUBLIC-PRIVATE
PARTNERSHIP
DIAGNOSTIC
STUDY REPORT**

February 2023



United Nations
Economic Commission for Africa



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ACKNOWLEDGEMENTS

This diagnostic study provides an overview of types, challenges, opportunities and risk mitigation for public-private partnerships (PPPs) in infrastructure projects in Zambia. It is one of the outputs of the United Nations Economic Commission for Africa (ECA) initiative on Public-Private Partnerships to Catalyse Infrastructure Development and Innovative Financing for Industrialization in Africa. The project aims to strengthen the capacities of stakeholders to use public-private partnerships as a means of innovative financing and infrastructure development in support of industrialisation in the post-Covid-19 era, focusing on selected African countries.

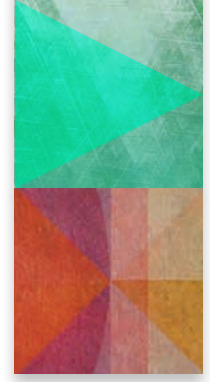
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The core ECA team consisted of Sara Adil Mohamed Sidahmed, Soteri Gatera, Yohannes Hailu and Yonas Bekele, who provided input to the study and insightful comments on various drafts.

A special mention goes to Isatou Gaye and Bineswaree Bolaky (both from ECA Southern Africa Sub-Regional Office) and Emmanuel Joshua Chinyama, Development Coordination Officer, UN Resident Coordination Office Zambia.

The core team would like to acknowledge various key PPPs stakeholders in Zambia for providing data, contributing insights, and participating in the workshop that validated the findings of this study. These are Andiseya Lengalenga, Castagrand Nonde, Gregory Kabwe, Isaac Munjunga, and Mukuli Chikuba (all from the Ministry of Finance and National Planning); Clement Chiwele and Clement Sasa, Francesca Zyambo (Ministry of Energy); Martin Lyambai (GIZ); Richard Mbewe (Independent Consultant); Silvester Hibajene (Copperbelt Energy Corporation); and Wycliff Kunda (Lusaka Water Supply and Sanitation Company).

Finally, the core team would like to acknowledge the support of the ECA administration staff, particularly Sissay Tadessem, Eskedar Bekele Gebremichael and Habtom Tesfaye, and especially on logistical support and organisation of meetings.



ABBREVIATIONS

AG	Auditor General's Office
CPIA	Country Policy and Institutional Assessment
DRC	Democratic Republic of Congo
ECA	Economic Commission for Africa
GDP	Gross Domestic Product
KGL	Kafue Gorge Lower
LuSE	Lusaka Stock Exchange
MW	Megawatt
OPPI	Office for Promoting Private Power Investment
PPP	Public-private partnerships
SADC	Southern African Development Community
SPV	special purpose vehicle



EXECUTIVE SUMMARY

This diagnostic study assesses Zambia's public-private partnership (PPP) readiness by examining critical questions that are part of a scorecard organised by thematic headings. The scorecard, developed by the United Nations Economic Commission for Africa, constitutes a formidable tool for evaluating a country's readiness to undertake successful PPPs.

Zambia has a GDP of \$21.7 billion and a population of 18.9 million. The World Bank reclassified the country in 2011 from a low-income country to a lower-middle-income country. The United Nations General Assembly has also indicated that Zambia is eligible to graduate from its least developed country (LDC) classification if it passes the second eligibility assessment in 2024. Zambia initially surpassed the \$1,222 per capita gross national income (GNI) eligibility level to be classified as an LDC in 2009. It remained above it until 2020 when GNI per capita decreased to \$1,190 per capita. Zambia's economic performance slowed dramatically after 2011. After averaging 8.7 per cent from 2006 to 2010, economic growth slowed to an average annual rate of 5.2 per cent between 2011 and 2014 and an even slower 2.0 per cent average between 2016 and 2020. In 2020, the Zambian economy experienced its first recession since 1998, contracting by -2.8 per cent. However, the economy rebounded in 2021, reaching 3.3 per cent growth, and was on track for a growth rate above 3.5 per cent in 2022.

Zambia is in a debt crisis due to a significant increase in internal and external debt over the last decade. As of June 2021, the overall debt stock reached \$27 billion, representing 106.8 per cent of GDP, with \$10 billion in local currency and \$17 billion in foreign currency.¹ The publicly guaranteed and non-guaranteed external debt stock stood at \$14.67 billion.

During the Covid-19 pandemic in 2020, the Paris Club and G20 creditor countries provided Zambia with debt service assistance through the Debt Service Suspension Initiative, which was extended in September 2021. However, in 2021 Zambia defaulted on its 2024 \$1 billion Eurobond, dropping its credit rating to selective default (SD) by S&P and restricted default (RD) by Fitch, signifying that the country was in default with little prospect of recovery. Zambia's credit rating will continue to impair its creditworthiness until it sustainably restructures its debt.

Zambia has just two decades of experience negotiating and implementing PPP projects. Given that most PPP infrastructure projects will not have been completed in two decades, that is not long enough for comprehensive institutional learning or for acquiring critical lessons.

Zambia's experience with PPPs predates the PPP Act of 2009, with four large infrastructure projects implemented with little success. More PPP projects were added to the pipeline after the 2009 PPP Act, but between 2014 and 2018, just 3 of the ten commissioned PPP projects were successfully implemented (reached financial closure). Some of the PPP projects commissioned before the PPP Act and new regulations failed due to a lack of a supportive policy, a situation that was expected to change once the new legal environment was in place. However, the public and private sectors lacked the competence to track performance, identify hazards and appropriately manage such risks.

Although political risk cannot be eliminated, PPPs in Zambia have considerable government support, as demonstrated by establishing a comprehensive framework for PPPs. PPP Act No. 14 of 2009 created a legal framework and established the legislative

foundation for the Ministry of Finance and National Planning (MoF) to establish a PPP unit. Although creating the PPP legal and regulatory framework improved the country's ability to attract and manage PPPs, most non-government stakeholders are still unaware.

PPP regulations in Zambia stem from PPP Act No. 14 of 2009, the PPP Amendment Act No.9 of 2018 and the government's official PPP Policy. PPP Act No. 14 established the institutional framework of the PPP Council, PPP Technical Committee, PPP unit and contracting authorities. Amendment Act No.9 transformed the PPP unit into the PPP Department under the MoF and reduced its responsibilities. The PPP Council approves projects suggested by the PPP Department. The acts, rules and regulations on PPP project implementation, appraisal and implementation guide the PPP Department. Together with other government agencies, the PPP Department is responsible for developing a structure to assist the government in engaging and partnering with the private sector to accomplish projects that benefit both parties. Proposal writing, concept writing, feasibility studies and other PPP project documentation are all standardised, which helps with presenting project concepts or ideas and evaluating proposals.

The public is mainly unaware of PPP projects and implementation structures because the government has not communicated information about PPPs effectively. For the most part, the public believes PPP initiatives are government projects and, as a result, is unaware of the private party's role. This strategic information gap limits public support for PPPs.

The Zambian government has supported PPPs primarily through equity financing, accomplished through sponsor capital contributions and other shareholder cash. The government has borrowed money from various sources to finance PPPs, including commercial lenders, export credit agencies, and bilateral and multilateral organisations, as well as by issuing bonds. Sovereign guarantees have also been used regularly. However, it has been argued that the government has been ineffective in recognising and managing financial risks connected with PPPs because contracting authorities frequently overlooked crucial project development processes, including feasibility studies, risk allocation and concession agreements.

Zambia's annual budgets have regarded PPPs as fiscal priorities that could relieve the treasury of financial pressure and leverage private sector investment in infrastructure projects to promote the country's economic development. However, the government's capacity to make multiyear fiscal commitments to infrastructure and PPPs has been severely hampered by its limited fiscal space. Further, the PPP Department and contracting authorities lack the in-house expertise to identify and appraise viable PPPs, do financial modelling, negotiate contracts, and monitor, evaluate, and administer PPPs.

Zambia lacks a comprehensive framework that defines the institutions, processes and methodologies for assessing, measuring, monitoring and managing project-related fiscal obligations and contingent liabilities. In addition to the PPP Department, the institutional structure for PPPs consists mainly of the PPP Council, whose secretariat is the Office of the Permanent Secretary in the MoF, and the Technical Committee, chaired by the Permanent Secretary in the MoF, which ensures that the financial obligations and contingent liabilities of PPP projects are closely monitored. Complementing this institutional structure are a standardised PPP proposal template and a feasibility study guide that outlines project structure, processes and methodologies and assesses and measures fiscal commitments and contingent liabilities in managing fiscal risk. The framework needs to be strengthened.

Further, it is argued that risks are not allocated efficiently between the contracting authorities and project developers, making it difficult to attract developers. The private sector has had to bear a disproportionately large share of the responsibility for conducting feasibility studies when project preparation is prolonged, which increases the financial risk to the private sector.

There are various ways to fund PPP projects in Zambia, but the most common are equity, debt, syndication, bonds and bank guarantees. Despite numerous project funding sources, local currency financing for large PPP projects is scarce. PPPs are funded primarily through debt from development finance institutions and multilateral development banks. Corporate financing, local commercial banks and pension funds contribute very little. Long-debt tenors are often provided by the primary sources of PPP funding, both local and external. Credit enhancement and risk-mitigation products exist only to the extent that the financing market for PPPs can be defined. Government guarantees are now governed by the Loans and Guarantees (Authorisation) Act, chapter 366. PPP regulations and rules are incompatible with private capital because they allow the government to dominate the identification, structuring and risk allocation of PPPs, making them less appealing to the private sector and preserving traditional public project financing mechanisms.

Stakeholders identify inadequate transparency and disclosure as among the most severe impediments to implementing PPPs successfully. The PPP Act establishes disclosure processes supplemented by the PPP evaluation guideline. However, their treatment of the requirements for transparency and accountability is deficient. For instance, the PPP Act lacks clarity on whether the PPP Department or the Auditor General's Office (AG), the government's highest auditing authority, can audit a PPP in the public interest. The PPP Department is therefore impeded from facilitating audits of some PPPs even when legitimate cause exists. Among the AG's powers, there is no mention of a requirement to audit PPP projects. Nonetheless, because

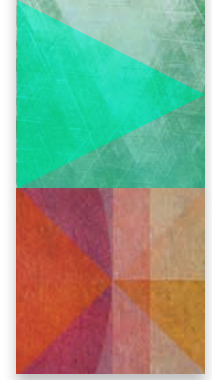
PPPs are required to follow public financial management principles, the AG's Office may audit PPPs as part of its mandate as an implementing authority. The AG's office has the capabilities and resources to conduct audits of PPP projects.

The PPP Act specifies transparency procedures in the PPP process, such as open publication bidding for PPPs and the publication of winning bidders. Using standardised PPP project technical proposals is another critical source of transparency in the PPP process. However, a clear and comprehensive framework must be established for PPPs' financial, performance and forensic audits.

Most PPPs in Zambia are national in scope. There have been few regional projects, although the government has indicated

its willingness to participate in cross-border initiatives. The Kasomano–Mwenda project, which involves Zambia and the Democratic Republic of the Congo (DRC), is the first regional PPP in which Zambia is involved. It entails the construction of a road and river bridge between DRC and Zambia. The project was scheduled to begin in 2022. Some other PPP projects are being operated, built and planned along the border, making them near-regional initiatives. Regional projects are supported, but they are not prioritised and are treated like any other PPP project.

Zambia does well on the PPP project Readiness Scorecard, failing only to have a PPP legal, regulatory and institutional framework consistent with the United Nations Economic Commission for Europe international PPP centre of excellence regarding people-first PPP projects.



1. INTRODUCTION

Zambia faces a vast infrastructure and services provision gap in many sectors of its economy, including transport and logistics, telecommunications, water and sanitation, energy and housing. The country also faces a massive deficit in school and hospital infrastructure. Infrastructure support remains a critical constraint to raising productivity and achieving desired levels of industrialisation. For instance, only around 31.4 per cent of households have access to electricity. Most rural production centres still struggle to access larger urban markets due to the deteriorated state of rural roads and bridges. Zambia's infrastructure need is limitless, while the financing options and capacity remain highly limited.

Diagnostic study

This diagnostic study of Zambia's public-private partnership (PPP) readiness is structured using the systematically organised United Nations Economic Commission for Africa (ECA) Scorecard. The scorecard consists of critical questions for analysing a country's PPP preparedness under thematic headings. The study is the first step in preparing a national PPP action plan.

The study consists of three phases:

1. Desk review using the ECA Scorecard to establish a country's PPP readiness status.
2. On-site due diligence through interviews and consultations with key stakeholders to confirm findings from the literature review and identify gaps in the PPP framework.
3. Prepare an action plan that identifies options for structuring a robust and sustainable PPP programme.

Background environment

Zambia is a huge, landlocked, resource-rich and sparsely populated least-developed country (LDC) in the heart of Southern Africa. Its designation as an LDC

implies low income, structural barriers to growth, high sensitivity to economic and environmental shocks, and low levels of human capital. Between 2001 and 2010, Zambia made significant progress in its social and economic growth and showed an outstanding ability to transform its economy structurally. The economy grew at an average annual rate of 6.2 per cent from 2001 to 2005 and 8.7 per cent from 2006 to 2010, making it one of the fastest-growing economies in Africa. However, that growth was quickly reversed from 2011 to 2020, plunging the economy into recession at the end of the decade.

Macroeconomic outlook

Having attained a GDP of \$21.7 billion in 2021 and a population of 18.9 million, Zambia was set to graduate from LDC status.² Zambia initially surpassed the \$1,222 per capita GNI level in 2009,³ one of the requirements for graduating from LDC status. It remained above it until 2020 when GNI per capita fell to \$1,190 per capita.⁴ The United Nations General Assembly informed the country in 2021 that it had met the graduation requirements. The 2021 decision followed the World Bank's reclassification of Zambia in 2011 from a low-income country to a lower-middle-income country. However, Zambia still has to pass a second eligibility assessment in 2024.

As a lower middle-income country, Zambia was no longer entitled to receive the same amount of concessional finance as a low-income country. The authorities accumulated fiscal deficits to close the infrastructure gap and improve public service delivery. Between 2006 and 2011, the fiscal deficit on a cash basis reached 5.4 per cent of GDP, with an average of 1.6 per cent of GDP per year. Zambia's economic performance slowed dramatically from an 8.7 per cent average annual growth rate in 2006–2010 to 5.2 per cent in 2011–14 and then to 2.0 per cent in 2016–2020. In 2020, the Zambian economy experienced its first recession since 1998, with growth contracting by –2.8 per cent. The economy began to recover in 2021, slowly reaching 3.3 per cent growth, aiming for

a growth rate above 3.5 per cent in 2022.⁵ The projected growth boost is predicated on higher copper prices, the start-up of new hydroelectric power plants and a return to average rainfall.

Zambia's macroeconomic fundamentals, including the exchange rate, inflation and employment, all began to deteriorate as the economy slowed. For example, between 2016 and 2021, the Zambian kwacha (K) was highly volatile, and the exchange rate deteriorated rapidly against virtual currencies. In 2017, the average annual exchange rate climbed by double digits, breaking through the psychological barrier of K11/\$1 in 2018 and continuing to rise.⁶ In June 2021, the exchange rate reached an all-time high of K22.6/\$1 before trending downwards, reaching a monthly average of K17.3/\$1 in January 2022.⁷

The deterioration in the exchange rate was attributable primarily to structural problems in the economy, exceptionally high external debt servicing costs and, recently, the spending pressure associated with the Covid-19 pandemic. The improvement in the exchange rate in 2022 was partly a result of higher world copper prices and renewed investor confidence in the economy occasioned by the change of government. However, the kwacha's exchange rate volatility and depreciation will likely continue until Zambia achieves significant structural transformation.

The kwacha's depreciation has raised the cost of imports of both inputs and final products and services, fuelling inflation and eroding investor confidence in the economy. End-of-year annual inflation increased from 6.1 per cent (year on year) in 2017 to 23.2 per cent in 2021, the highest level in the past decade. Monthly annual inflation forecasts have decreased since the decade's all-time high in June 2021, from 24.6 per cent to 15.1 per cent in January 2022, making steady progress toward the 6–8 per cent medium-term target range.⁸

Zambia is in a debt crisis due to a significant increase in internal and external debt over the last decade. During the Covid-19 pandemic in 2020, the general government debt stock ballooned to an estimated \$27 billion in June 2021, with \$10 billion in local and \$17 billion in foreign currency.⁹ This results in a general government gross debt of 106.8 per cent of GDP.¹⁰ At the end of June 2021, the total publicly guaranteed and non-guaranteed external debt stock was \$14.67 billion.¹¹ Chinese creditors are owed \$5.75 billion of this total.

Zambia's debt stock composition complicates debt restructuring because the International Monetary Fund (IMF) cannot play its traditionally dominant role in restructuring debt when a low-income country has borrowed excessively from the Paris Club or G20 bilateral creditors. Nonetheless, the Paris Club and G20 creditor countries gave Zambia debt service assistance through the Debt Service Suspension Initiative, which was extended in September 2021.

After Zambia entered the Eurobond market in 2011, its credit rating deteriorated from B+ (highly speculative) on both S&P and Fitch ratings to a selective default (SD) rating by S&P and restricted default (RD) by Fitch in 2021 (signifying that the country was in default with little prospect of recovery). Zambia's credit rating downgrade was triggered by its default on the \$1 billion Eurobond issue in 2021 after bondholders refused to defer interest payments in the Covid-19 pandemic era. Zambia's credit rating will continue to significantly impair its creditworthiness, with debt becoming more expensive for the government and other public institutions and making sovereign guarantees by the Zambian government untenable.

While the rating agencies view the shift in the government's focus to debt sustainability and macroeconomic stability under the new administration favourably, they will upgrade Zambia's credit status only after a debt restructuring plan has been agreed upon under the G02 Common Framework with creditors and once relations with international creditors have been normalised. In the meantime, Zambia will have to abide by IMF conditionality requiring a shift in spending from subsidies and inefficient public investments towards health, education and social benefits.

Zambia's dismal economic performance was partly attributable to low copper prices, agricultural output losses, reduced hydroelectric power generation due to insufficient rains, and inadequate policy response to these exogenous shocks. The Covid-19 pandemic also further harmed Zambia's economy, weakening the country's macroeconomic foundations and fiscal capacities.

Business climate

Despite the poor economic performance, Zambia has continued its vigorous efforts to improve its business and investment climate. For all but one of the World Bank's 11 doing business metrics for 2020, Zambia outperformed the regional norms for Sub-Saharan Africa and generally outperformed its peers, including Angola, Botswana and Namibia.¹² Zambia scored 41 per cent on preparation, 82 per cent on procurement, 80 per cent on contract management, and 58 per cent on unsolicited proposals on the World Bank's *Benchmarking Infrastructure Development 2020* report.¹³

It could be concluded that Zambia, as an LDC, does not provide a suitable environment for PPPs. However, World Bank data show that many upper-middle-income and low-income economies follow the procurement practices set out in legislation.¹⁴ Credit ratings indicating that the economy is in default with little chance of recovery link Zambia to the risk of default. Zambia's default on its 2024 Eurobonds will raise the cost of borrowing, even for private ventures, making any new

infrastructure investments more costly or perhaps even unaffordable to the general public.

Climate change

In Zambia, climate change is manifested mainly in unpredictable rainfall patterns and heatwaves, seriously affecting agriculture, energy and transportation. Food shortages, sporadic power outages, limited accessibility, and isolation of rural economies are some of the adverse repercussions of climate change. Zambia will lose an estimated 6 per cent of its GDP due to climate change effects by 2045–2050 if mitigation initiatives are not implemented.¹⁵ Climate-smart initiatives are needed in agriculture, energy and transportation in response to climate change and weather variability. Zambia's budget provisions for climate action are woefully inadequate, making PPPs one of the best options to enable the government to invest in necessary climate-resilient initiatives.

2. PUBLIC-PRIVATE PARTNERSHIP EXPERIENCE

Zambia has engaged in PPPs since the early 2000s, and none of the projects has reached completion. Given the extended duration of most PPP infrastructure projects, Zambia's two decades of experience are insufficient to have acquired critical lessons. Zambia's PPP experience is in sectors as diverse as energy, transportation (roads and harbours), retail trade (markets and business parks), tourism and hospitality. Most of Zambia's

PPP initiatives have been unsuccessful and had to be renegotiated or cancelled. Some of the country's PPP initiatives were negotiated and implemented before passing the PPP Act and Amendment.

Before the PPP Act of 2009, seven large infrastructure projects were implemented. Reaching financial closure on PPPs in Zambia has been challenging. For instance, between 2014 and 2021, only 4 of more than ten large commissioned PPP projects reached financial closure.¹⁶ Some PPP projects commissioned before the PPP regulations failed due to a lack of a supportive policy and legal environment.¹⁷ The private sector lacked the competence to track performance, identify hazards and appropriately manage risks. Table 1 shows the PPPs the government considered and implemented before establishing the PPP legislation in 2009, while Table 2 shows the PPP projects implemented after the legislation was passed. Furthermore, Table 3 shows the PPP project pipeline registered by the PPP Department [But many of them are dated much later than 2009. Did even the ones with dates in the 2020s begin before 2009?].

There are 11 relatively minor PPP projects the government has considered implementing since the PPP legislation was passed but are neither among those recognised by the World Bank nor on the list of projects in the pipeline at the PPP Department shown above. These are sketchily listed by sector as below:

Energy

1. Development of Kalungwishi hydropower station capacity of 247 MW,

TABLE 1 Public-private partnership projects considered and implemented by the government before the 2009 PPP Act

No.	Year	Project name	Project description	Sector
1	1997	Zambia Consolidated Copper Mines Ltd. Power Division Distribution	The project is an active partial divestiture of a 700 km electricity distribution and transmission project with an 80 per cent private stake. The PPP was unsolicited. There is no public disclosure on this PPP project.	Electricity
2	2000	Mpulungu Harbour Corporation	This 25-year concession by the Zambian government to Agro Fuels Zambia was cancelled in 2010 due to low performance.	Transport, water
3	2001	Lubama Market Construction	The contract is a 60-year build, operate and transfer PPP contract between Lusaka City Council and China Henan. The contract is still running uninterruptedly.	Trade and logistics
4	2001	Lunsemfwa Hydropower	The hydropower project is a complete active divestiture of a 38-megawatt (MW) electricity generation project. The PPP has upgraded the project with new technology to generate 50 MW of electricity. The private stake is 100 per cent. The PPP was unsolicited, and this project has no public disclosure.	Electricity
5	2001	Zambia Mining Township Water and Sanitation Services	This is a management contract PPP for a water utility with sewerage. The project was solicited to install connections to 36,000 customers in five townships and has 100 per cent private equity. There is no public disclosure on this project.	Water Utility
6	2003	Railway Systems of Zambia Ltd.	The project is distressed to rehabilitate, operate and transfer PPP on Zambia's fixed assets freight and passenger transport systems. The project was a solicited concession of the railway's system. The private stake is 100 per cent. The project duration is 20 years.	Railways
7	2009	Kasumbalesa One-Stop Border Post	A 25-year design, build, operate and transfer agreement between the Zambian government and the Border Crossing Company to construct state-of-the-art border facilities. The deal was reversed in 2012, and the contract was renegotiated in 2015.	Trade and logistics

Source: Private participation in infrastructure (PPI) World Bank Group; Muleya et al. (2019).

TABLE 2 Public-private partnership projects implemented by the government after the 2009 PPP Act

No.	Year	Project name	Project description	Sector
8	2010	Sinohydro Kafue Gorge Lower (KGL) Hydropower Plant	This is an active build, operate and transfer PPP project to generate 600 MW hydroelectricity. The private stake in this solicited project is 50 per cent. However, the ownership structure was changed after implementation, and KGL now has a 100% stake in the hydroelectricity station.	Electricity
9	2010	Zamtel	The project is a distressed partial divesture PPP designed with 75 per cent private investment. The project was solicited, but it lacked public disclosure. The project was meant to connect 90,000 customers.	Information and communication technologies
10	2011	TATA Itezhi-Tezhi Hydropower Plant	The project is an active build, operate and transfer hydroelectric generation project with a capacity of over 50 MW. Private investment was meant to be 50 per cent, and the concession period was 25 years. The project was solicited, but it lacks public disclosure.	Electricity
11	2012	Itezhi-Tezhi Power Corporation Transmission Line	The project is an active build, operate and transfer 276 km electricity transmission line. Private investment was meant to be 50 per cent, and the concession period was 25 years. The project was solicited, but it has had little public disclosure.	Electricity
12	2015	Maamba Coal-Fired Power Plant, Phase-I	The project is an active build-own-operate (BOO) coal-powered electricity generation plant of more than 300 MW. Private investment in this project was meant to be 65 per cent, and the concession period was 30 years. The project was solicited, but it lacked public disclosure.	Electricity
13	2017	Bangweulu Solar Photovoltaic Electricity Generation	The project is an active BOO solar photovoltaic electricity generation plant with a more than 47.5 MW capacity. Private investment was meant to be 80 per cent, and the concession period was 25 years. The project was solicited, but it lacked public disclosure.	Electricity
14	2018	Ngonye Solar Photovoltaic Electricity Generation	The project is an active BOO solar photovoltaic electricity generation plant with more than 34 MW capacity. Private investment was meant to be 80 per cent, and the concession period was 25 years. The project was solicited, but it lacked public disclosure.	Electricity
15	2021	Serenje Solar Photovoltaic Electricity Generation	The project is an active BOO solar photovoltaic electricity generation plant with more than 200 MW capacity. Private investment was meant to be 100 per cent. The project was unsolicited, and it lacked public disclosure.	Electricity

Source: Private participation in infrastructure (PPI) World Bank Group; Muleya et al. (2019).

TABLE 3 Public-private partnership pipeline projects registered by the PPP Department [as of [date?]]

No.	Project name	Project description	Contracting authority	Sector	Project stage		
					Concept development	Feasibility study	Procurement
1	Nseluka–Mpulungu Railway System	Development of new infrastructure, including railway infrastructure, station structures, mechanical and electrical installations, signalling and telecommunications equipment, and rolling stock maintenance facilities. This project aims to connect Zambia and the Great Lakes region to boost trade and economic activities.	Ministry of Transport	Transport			✓
2	Waste-to-Resource	The development of processing plants to recycle the waste into other products or process waste into energy.	Lusaka City Council	Energy			✓
3	Kasoma Lunga, Chunga and Chishi Solar Mini-Grids and Home Solar System	Development of a mini solar grid system to provide power in surrounding areas.	Rural Electrification Authority	Energy			✓
4	Kasanjiku Mini Hydropower	Covers the operation and maintenance of the power station to supply power to surrounding areas.	Rural Electrification Authority	Energy			✓
5	Commercial Infrastructure Development	Development of commercial and housing estates to contribute to socioeconomic development.	Zambia Army	Commercial and real estate			✓

TABLE 3 Public-private partnership pipeline projects registered by the PPP Department [as of [date?]] (continued)

No.	Project name	Project description	Contracting authority	Sector	Project stage		
					Concept development	Feasibility study	Procurement
6	Digital Tax Stamp System	Establishment of a wide array of security features to improve excise duty collection rates; the project will automate the affixing of digital stamps and monitor the process in real time.	Zambia Revenue Authority	Security			✓
7	Twin Palm Mixed-Use Development	Development of a mixed-use real estate on 32 hectares of land on Twin Palm/Leopard Hill Roads, with facilities to include shopping, offices and housing.	Zambia National Broadcasting Cooperation	Real estate/commercial			✓
8	Redevelopment of Long Acres Lodge Premises	The government wishes to invite the private sector to redevelop the Long Acres Lodge premises into an upmarket ultramodern commercial facility, including a five-star hotel, hotel, shopping facilities, offices and auxiliary infrastructure.	Hostels Board	Commercial and hospitality			✓
9	Five-Star Hotel at Arakan Barracks	Zambia Army has land in various parts of the country, which could be developed into commercial or housing estates.	Zambia Army	Commercial			✓
10	Lodge at Livingstone Officer's Mess	Zambia Army has land in various parts of the country, which could be developed into commercial or housing estates.	Zambia Army	Commercial			✓
11	Mixed-use Development at Buffalo Park	Zambia Army has land in various parts of the country, which could be developed into commercial or housing estates.	Zambia Army	Commercial			✓
12	Three-Star Boutique Hotel at Bon Accord	Zambia Army has land in various parts of the country, which could be developed into commercial or housing estates.	Zambia Army	Commercial			✓
13	University of Zambia Student and Staff Accommodations	The project will seek private-sector financing to develop student hostels, staff housing, sports complexes and shopping malls at the University of Zambia. The university has a large student enrolment of more than 20,000 but with bed spaces for less than 10,000 students. It also has staff who require accommodation.	University of Zambia	Real estates			✓
14	Establishment and Management of a Game Ranch	Investment in a game ranch at Mulungushi University. The project aims to improve the university's financial sustainability and facilitate the introduction of new academic programmes in tourism and natural and game management.	Mulungushi University	Tourism		✓	
15	Residential Facilities	Development of high-income residential facilities, as well as office and commercial facilities.	Zambia Agency for Persons with Disabilities	Commercial		✓	
16	Market Development	Lusaka City Council has identified markets in Lusaka for development into modern trading market facilities for local communities through PPP arrangements. The markets are Chifundo Market in Chilenje South, Kabwata Market in Kabwata, Buseko Market in the industrial area, Northgate Market in the SOS Children's Village area, Luburma Market in Kamwala; Simon Mwewa Lane along Lumumba Road, and Stand No. Lus/4503 bare land north of Nationalist Stadium in Ridgeway.	Lusaka City Council	Real estate		✓	

TABLE 3 Public-private partnership pipeline projects registered by the PPP Department [as of [date?]] (continued)

No.	Project name	Project description	Contracting authority	Sector	Project stage		
					Concept development	Feasibility study	Procurement
17	Hospital, Research Laboratory, Housing Units and Offices	Modernising and expanding Tropical Disease Research Centre operations, including a health research facility to house clinical labs for diagnosing illnesses, specialised hospitals and housing units.	Tropical Disease Research Centre	Health	✓		
18	Health Centre of Excellence	Construction of a health centre of excellence in Lusaka.	General Nursing Council of Zambia	Health	✓		
19	Housing Units and Office Accommodations in Ndola	Development of housing units and office blocks to alleviate the shortage of office space and create a specialised hospital and a gated residential housing complex comprising flats and rental houses.	Centre for Tropical Diseases	Real estate	✓		
20	Dual-Carriage Road from Lusaka to Ndola	Construction of a 422 kilometre (km) dual carriageway from Lusaka to Ndola to improve traffic flow and travel time (estimated \$516.2 million), with a 40 km bypass in Kabwe and Kapiri and rehabilitation of the 45 km of the Masangano to Luanshya road.	Road Development Agency	Transport	✓		
21	Road from Kasempa to Kaoma through Lumpa	The road from Kasempa to Kaoma through Lumpa -565 km – is upgraded to a bituminous standard sufficient to carry light trucks and medium to heavy traffic (estimated \$395.5 million).	Road Development Agency	Transport	✓		
22	Dual Carriageway from Chirundu to Chilanga	Construction of a 45 km dual carriageway from Chilanga to Turn Pike and 80 km road maintenance from Turn Pike to Chirundu (estimated \$75 million).	Road Development Agency	Transport	✓		
23	Dual-Carriageway from Livingstone to Sesheke	Work on a 212 km stretch of road. Rehabilitation of the road from Livingstone via Kazungula Sesheke and rehabilitation of 20 km access roads in Livingstone and Katima Mulilo (estimated cost of \$148.4 million, plus \$30 million for toll plazas and weighbridges).	Road Development Agency	Transport	✓		
24	Dual Carriageway from Chingola to Kasumbalesa border	Rehabilitation of 41 km of the dual carriageway to the existing 41 km and addition of toll plazas, two weighbridges and the construction of 10 km of access roads in Chingola (estimated cost of \$32.8 million).	Road Development Agency	Transport	✓		
25	Mamba–Batoka Road	Work on 88 km of road from the Livingstone Road Junction. Rehabilitation of some sections, including drainage and bridges, two toll plazas and one weighbridge (estimated cost of \$52.8 million).	Road Development Agency	Transport	✓		
26	Solwezi–Kipushi Road	Upgrading of 121 km of road in North Western Province. Involves three bridges and 11.7 km of urban roads in Solwezi and Kipushi (estimated cost of \$83.32 million).	Road Development Agency	Transport	✓		
27	Leopards Hill to Chirundu Road	Upgrading 100 km of the Katoba to Chirundu road via Chiawa with 80 mm overlay, a toll plaza and service facilities near Chiawa bridge and Chirundu Leopards Hill Road (estimated cost of \$72 million).	Road Development Agency	Transport	✓		

TABLE 3 Public-private partnership pipeline projects registered by the PPP Department [as of [date?]] (continued)

No.	Project name	Project description	Contracting authority	Sector	Project stage		
					Concept development	Feasibility study	Procurement
28	Ndola–Chingola Road Maintenance	The Ndola to Chingola Road is part of trunk road T003 that stretches for 105 km (estimated cost of \$63 million over 15 years).	Road Development Agency	Transport	✓		
29	Mutanda to Mwinilunga Road	Rehabilitation of the 253 km road to the bituminous surface (estimated cost of \$177 million).	Road Development Agency	Transport	✓		
30	Stock Feed	Procurement of stock feed, which Indeni will process.	Indeni Petroleum Refinery	Energy	✓		
31	Three-star Hotel along Airport Road in Livingstone	Construction of the Harry Mwangi Nkumbula Hotel on the land adjacent to Livingstone International Airport by Zambia Airports Corporation Limited.	Zambia Airports Corporation Limited	Tourism	✓		

Source: MoFNP – PPP Department Database.

2. Development of Kabompo hydropower station capacity of 40 MW,
3. Development of Mombututu mini-hydropower station,

Transport

4. Construction of railway links—Njanji Commuter Service Railway Line and North Western to Namibia Rail Line (Solwezi–Katima Mulilo), Chipata–Petauke, Serenje Rail Line and the Livingstone–Katima Mulilo Rail Line,
5. Conversion of Zambian main trunk roads (Lusaka–Livingstone) to toll roads and introduction of toll road gates (under BOOT contract),
6. Urban transport railway line: Chingola–Solwezi–Lumwana–Jimbe freight railway line, and
7. Kabila–Mwenda road project for constructing 92km of standard bituminous road, a suspension bridge, a one-stop-border post, weigh bridges and toll gates.

Real Estate

8. Construction of 4,000 housing units each in Livingstone, Lusaka and Ndola (under BOOT contract),
9. East Park Mall by the University of Zambia (under build, operate, transfer contract),
10. Government offices complex (under maintenance contract),
11. Long Acres Lodge redevelopment,

The East Park Mall PPP project, in which the University of Zambia leased land to Graduate Property Development Limited to build a shopping mall, is considered a success. However, the contracting authority could have negotiated a better deal after the project scope changed to include a second project phase. The government offices complex, which houses government ministries, leisure areas, restaurants and conference rooms, is another PPP project that is considered a success.

The primary objectives of the government in pursuing PPP projects are stated in the PPP Policy as follows:

- i. To ensure public funds, assets, and private sector resources from local and international markets are used to accelerate infrastructure and service investments.
- ii. To foster a business-friendly climate by encouraging and supporting investments that demonstrate value for money for the government.
- iii. To improve the accessibility of public infrastructure and services while delivering exceptional service and project efficiency.
- iv. To guarantee that essential and appropriate local, national and international social and environmental criteria are met.
- v. To safeguard the interests of all stakeholders, including the private sector, the government, end-users and those impacted.
- vi. To develop well-organised and transparent institutional processes for identifying, structuring and competitive tendering for PPP projects.
- vii. To devise a strategy for establishing effective risk-sharing arrangements.
- viii. To encourage and promote private sector participation in delivering public infrastructure and services locally.

These goals were simple enough to instil stakeholder trust in the Zambian PPP framework. The government hoped such explicit and obvious aims would attract local and foreign PPP investors. As anticipated, there has been an increase in the number of PPP applications, both solicited and unsolicited. Some PPPs have been effective, such as the Kasumbalesa One-Stop Border Post. Despite a shaky start and the detrimental consequences of the lack of resolve by the Zambian and the Congo DRC governments to curtail illegal border crossings, the Kasumbalesa One-Stop Border Post may boast that it is bringing in money for the government. Other projects that have had some success include the Maamba coal-fired power plant (300 MW), the East Park Mall project, the Chingola–Solwezi road, the Kabompo hydropower plant (40 MW), the government office complex and the Lusaka–Livingstone Road tolling projects.

Zambia's PPP framework allows for local changes in the structure, and a few PPP models have been customised regionally. For example, the Lusaka Water and Sewerage Company partnered with the Water Trusts to provide water and sanitation services. These community-based organisations operate in certain parts of Lusaka under a delegated management model. The project provides clean drinking water to the residents of Kanyama, one of the largest and most densely populated informal settlements in Lusaka.¹⁸

Another locally adapted PPP is the 34 MW Ngonye solar photovoltaic project in the Lusaka South Multi-Facility Economic Zone (LS-MFEZ). The Ngonye Power Company owns 100 per cent of the solar power plant under a build, operate and transfer agreement. Still, the plant supplements the country's inadequate power supply. Another effort to address the power supply gap is the 47.5 MW Bangweulu solar plant in the LS-MFEZ. The government provided revenue guarantees in both projects. Another PPP initiative is the \$210 million, 40 MW Kabompo hydropower project, a special purpose vehicle (SPV) controlled by Copperbelt Energy Corporation. The SPV was formed to construct and operate the power facility for 15.5 years.

Stakeholders support facilitating PPPs involving independent power producers and creating the Office for Promoting Private Power Investment (OPPPI), whose mission is to promote private sector participation in the development of Zambia's electricity sector. The Ministry of Energy administers the OPPPI.

The private sector in Zambia has demonstrated some capacity to partner with the government on infrastructure development. One study found that the private sector plays a significant role in influencing PPP outcomes.¹⁹ Stakeholders interviewed for this diagnostic study also observed that the private sector in Zambia faces many challenges to its participation in PPPs. These include limited access to project financing because of high-interest rates, short financing tenor of loans from local commercial banks and the lack of financing depth in the local financial services industry.

Many local actors, including private sector companies, are involved in the PPP market. Among the notable local actors in the PPP area, on the one hand, are public entities like the National Pension Scheme Authority, and on the other, private entities like the Copperbelt Energy Corporation. The Kabompo hydropower project is a collaboration between two local entities, the Copperbelt Energy Corporation, a private entity, and the Zambia Electricity Supply Corporation, a government entity. Contrary to standard PPP practice, Zambia has recorded some projects resulting from the cooperation of public institutions, such as the Road Development Agency and the National Housing Authority, to create road-tolling infrastructure and residential housing estates as PPPs. The study, therefore, recognises such inconsistencies in the description of PPPs.

3. STAKEHOLDER SUPPORT AND OWNERSHIP

PPP in Zambia have considerable support. Although political risk cannot be eliminated, the government's broad support for PPPs is evident in the comprehensive framework it has created for PPPs. PPP Act No. 14 of 2009 established the legislative foundation for a PPP unit in the MoF. However, between 2011 and 2015, the government showed a wilful disregard for the private sector's interest in PPPs, unilaterally cancelling contracts. More recently, the government began cautiously approaching PPPs again, recognising that the private sector is a significant investor. Given its fiscal constraints, the government understands the importance of strategic collaboration with the private sector.

The Zambian government supports the idea of PPPs at all levels. PPPs are an essential source of development money at the subnational level and are strongly supported, as in the Lubama market initiative. The government demonstrated leadership and commitment to changing the economy by engaging with the private sector on development through PPPs. This step instilled trust in the private sector to engage in and complement government investment efforts.²⁰ To guide the PPP agenda, the government has established a Committee of Ministers (the Council) and a Committee of Permanent Secretaries.

Cooperating partners, such as the Institute for Public–Public Partnerships, the World Bank and the European Investment Bank, view PPPs in Zambia as essential to the development and support the reform process through programme assistance.²¹ Cooperating partners' support goes beyond financial resources to technical assistance in information, consulting services, training and networking. The work and experience with the PPPs of cooperating partners have considerably expanded the PPP process. For example, Zambia's 2009 PPP Act was created with input and assistance from the World Bank, international donors and private companies. The procedural guidelines, although not implemented, were drafted through a World Bank initiative. The PPP programme in Zambia is inextricably related to donor programming.²²

PPP are also popular among the general public since they are thought to improve service delivery and create jobs without unfairly impeding local firms or drawing excessively on public resources. The general public's view is difficult to gauge, however. There have been no protests regarding PPPs or PPP regulations, and the absence of objections suggests that the government has handled PPPs cautiously.

The MoF formed an independent PPP Department to promote PPPs. The government, the general public and other stakeholders will support PPPs if the PPP Department can fulfil its primary mandate of "facilitating the effective and efficient delivery of

public infrastructure and related services and promote innovation in infrastructure development and delivery of social services through private sector participation.”

PPP strategic plan or policy

Zambia’s PPP Policy demonstrates the government’s intention to accelerate the delivery of public infrastructure. The PPP Act of 2009 and the subsequent amendments establish a legal foundation for PPPs, while the PPP Policy sets a moral compass and provides additional administrative and regulatory frameworks for implementing PPPs. However, although the National Development Plans contain some strategic pronouncements on PPPs that could be broadly construed as PPP, Zambia lacks a clear PPP strategy.

The Citizens Economic Empowerment Commission Act No. 8 of 2006 supports the PPP legal and regulatory framework. The commission is a statutory agency that reports on administrative matters to the Ministry of Small and Medium Enterprise Development. Furthermore, Public Finance and Management Act No. 1 of 2018 support PPPs in many ways, particularly by setting out the institutional and legal framework for managing public finances, oversight and accountability. These favourable laws work together to improve the case for PPPs in Zambia.

Public support

Research on public support for PPPs in Zambia is scarce.²³ Few studies have considered the influence of the PPP legislation on the private sector’s decisions to participate in PPP projects in Zambia. Further, studies are silent on whether the general public understands PPPs, why they are used, or their role as an alternative mode of financing infrastructure development and service delivery.

Domestic businesses have backed PPPs, although only a few of them. For example, the Copperbelt Energy Corporation is involved in the Kabompo hydropower project, generating 40 MW of electricity. TATA is involved in the Itezhi-Tezhi hydropower project and the Itezhi-Tezhi Power Corporation transmission line. The University of Zambia partnered with Graduare Property Development Limited to build the East Park Mall as a PPP project, leasing land to Graduare to build the mall. The Lusaka Water and Sewerage Company has entered into PPPs with local businesses to supply urban and peri-urban sanitation services, such as in Kanyama and Chazanga. With financing from the Bill & Melinda Gates Foundation, the Water and Sanitation for the Urban Poor organisation has improved sanitation in urban and peri-urban areas.

While no recognised entities in Zambia oppose PPPs, a few socialists, who advocate for state ownership of the means of production, push back against foreign private sector ownership

of vital economic interests such as mines. While most polled individuals are not opposed to PPPs, they are concerned about how they are managed. Notably, they are concerned about membership in the PPP Council and Technical Committee, which senior government officials dominate with little to no experience in the private sector. This could result in poor risk distribution favouring the private sector. Stakeholders also wanted the PPP Technical Committee to include representatives from the transportation, energy, water and private sectors.

4. LEGAL AND REGULATORY FRAMEWORK FOR PUBLIC-PRIVATE PARTNERSHIPS

The PPP Act No 14 of 2009 anchors the legal and regulatory framework for PPPs in Zambia. Amendment No. 9 of 2018 changed the institutional framework of PPPs by transforming the PPP unit into the PPP Department within the MoF. The amendment also reduced the primary responsibilities of the PPP Department from 17 to 11, making it challenging to facilitate PPP projects effectively. And although Zambia has developed a PPP Policy, most non-government stakeholders are unaware of it.

Nonetheless, Zambia has successfully implemented many PPP projects since the enactment of the 2009 PPP legislation and has many others in the pipeline. Thus, the PPP legal and regulatory framework helps to identify and implement successful PPP projects in Zambia.

However, there are concerns about governance shortcomings, which tend to raise the costs of PPPs and amplify political risks. Institutions and policies significantly impact a country’s economic freedom, property security, contract enforcement, the rule of law, civil freedoms and investment inflows that lead to improved economic performance.²⁴ As a result, problems with policy and legislation development, observance of the rule of law, predictability of social and civic processes, and ease of doing business, among others, must be dealt with to enable socioeconomic prosperity.

In the past decade, Zambia’s political and economic governance worsened, provoking considerable dissatisfaction nationally and internationally. In 2019, Zambia’s score on public sector management and institutions on the World Bank’s Country Policy and Institutional Assessment (CPIA) was 3.0, a maximum of 6, down from 3.5 in 2015. Zambia’s score on transparency, accountability and corruption in the public sector also fell, from 3.0 in 2015 to 2.5 in 2019, while its score rose slightly on structural policies, from 3.7 in 2015 to 3.8 in 2019. Zambia’s overall CPIA score also fell slightly from 3.3 in 2015 to 3.2 in 2019, reflecting a deterioration in the country’s institutions and policies. Improving accountability by providing the public and

civil society with better access to information on public projects would improve the legal and regulatory framework.

General enabling legislation and regulation

Zambia's PPP Act of 2009 and the PPP Policy provide an adequate legal and regulatory environment for PPP projects. Creating a PPP legal and regulatory framework improved the country's ability to attract and manage PPPs. Since the promulgation of the PPP legislation and Policy in Zambia, many PPP projects have been structured and realised. Although many PPPs have been commissioned, a few have not been successfully executed. However, it can generally be argued that Zambia's PPP legal and regulatory environment encourages the identification and execution of successful PPP initiatives.

The PPP Policy was created to provide guiding principles for forming PPPs. This was an essential undertaking, given the need to coordinate PPP operations in a context where all participants, including the government, the private sector and the Zambian people, have competing interests. The Zambian people are expected to participate in partnerships with various goals in mind. As a result, the strategy is designed to support the development of a diverse range of high-quality, timely public infrastructure and services. Faster project delivery, maximum leveraging of public funds, increased accountability, a transition to whole life cycle costing, and infrastructure management by the private sector are all ways to achieve this.

The PPP Act defines a PPP as an "investment in an infrastructure project or facility through private sector involvement." The policy defines a PPP as "an agreement between the public and private sectors (consistent with a broad range of possible partnership structures) with explicit agreement on shared objectives for the delivery of public infrastructure or public services by the private sector that would otherwise be provided through traditional public sector procurement." The PPP Policy goes on to define a PPP as a contract between a public entity and a private party for the provision of assets or services in which the private entity receives a benefit/financial remuneration based on predefined performance criteria, which may be derived entirely from service tariffs or user charges, entirely from government budgets or a combination of both.

Part II of the Act outlines the PPP Council's project identification, appraisal and approval procedures. The approval procedure starts with the PPP Department, then advances to the PPP Committee, and finally to the PPP Council for ultimate approval. The procurement procedure is also clearly described, beginning with expressions of interest and progressing through the negotiation and contract awarding stages. The PPP Act also specifies the essential elements of a PPP agreement and dispute resolution procedures. The PPP Act includes two reference schedules: one outlines 16 types of PPP projects and how

each would be administered, and the other lays out the PPP Council's administrative duties.

The PPP Act of 2009 may no longer accurately reflect contemporary policy dynamics dictated by the necessity of specific climate initiatives in development programming. While the PPP Act does not explicitly include low-carbon or climate-resilient infrastructure, it stipulates that environmental protection must be included in the request for a proposal for a PPP project. Environmental standards must be met by the criteria used to evaluate technical details. The government can enact new laws to cover growing climate action targets because the government elevated environmental and green economic challenges to a higher policy level by creating a ministry dedicated to those issues.

Most parties are concerned that the PPP definition isn't explicit enough to encourage increased private-sector investment in infrastructure projects. As a result, the government has continued to deploy traditional infrastructure development methods under PPPs. For example, PPPs are financed by state-owned SPVs with no private sector stakes. The KGL hydropower plant is an example of this. The project ownership structure was revised post-implementation making the Zambia Electricity Supply Corporation's SPV the sole investor in the 750 MW power station designated as a PPP [why is this not listed in table 1 or table 2?], despite the government bearing all of the investment's obligations. As a result, stakeholders advocate for the PPP regulatory framework to be revised to offer greater clarity.

Specific legislation and regulations regarding unsolicited proposals

While the PPP Act favours competitive selection in awarding PPP contracts, it nevertheless allows unsolicited proposals. Article 42 of the PPP Act also lays out the conditions under which contracting authorities are authorised to receive, review, analyse and accept an unsolicited proposal:

- It is independently originated and developed by the proposer.
- It would benefit the public.
- It was prepared without the supervision of the PPP Department or a contracting authority.
- It includes sufficient detail and information for a contracting authority to evaluate the proposal objectively and quickly.

The PPP Act is comprehensive and includes definitions of all critical terms, including unsolicited proposals. Any proposal for implementing an infrastructure project or facility not made in response to a request or solicitation issued by the PPP Department or a contracting authority as part of a competitive selection procedure is considered an unsolicited proposal.²⁵ The law also outlines the conditions for submitting an unsolicited proposal and the approval procedures and requirements for ensuring the proposal is competitive. However, the law is silent on the permitted types of unsolicited proposals.

Other specific legislation and regulation

Under Part III of the PPP Act, the finance minister may set out the requirements for a feasibility study. The feasibility study demonstrates that the project is feasible, cost-effective, and technically sound and ensures adequate operational and financial risk transfer. Zambia's Public Procurement Act No.8 of 2020 mandates that the contracting authority's standard procurement documentation, bid notices and contract awards be disseminated appropriately. Section 52 of the Public Procurement Act states that contracts for the construction, rehabilitation or operation of public infrastructure and other public goods, services, concessions and comparable forms of contracting financed through a PPP must follow the procedures outlined in the PPP Act of 2009.

Some processes must be disclosed ahead of time, and some disclosures have specific deadlines. For example, the contracting authority must publicise the call for expression of interest, the notice of contract award (revealing who won the concession) and the intention to negotiate. Because Zambia has yet to enact a freedom of information law, the PPP Act includes many information prohibitions for PPP activities.

5. PUBLIC-PRIVATE PARTNERSHIP INSTITUTIONAL CAPACITY

As PPPs are an arrangement in which the government collaborates with the private sector to undertake projects, they are contingent on meeting specific legal requirements and demonstrating the ability to offer the intended benefits of such arrangements. Together with other government agencies, the PPP Department is responsible for ensuring that a structure exists to assist the government in engaging and partnering with the private sector to accomplish projects that benefit both parties and the public. This structure has enabled the government to put forward initiatives that would not have been viable if the government had to rely only on its financial resources. Partnerships with the private sector provide greater access to financial resources, allowing many more projects to become a reality. These projects could be bolstered by tackling some bottlenecks that plague the PPP process.

Institutions

The PPP Department within the MoF collaborates with other government agencies, depending on the project, to fulfil its mission. These institutions have specific responsibilities, and some are involved in multiple initiatives. The MoF; the Ministry of Energy; the Ministry of Commerce, Trade and Industry; the Road Development Agency; the National Road Fund Agency; and the Ministry of Infrastructure, Housing and Urban Development are among the institutions that work with the PPP

Department. In project formation, planning and advisory functions, the ministries may include the linked statutory agencies under their purview, such as the Zambia Development Agency and the Zambia Revenue Authority.

Two other institutions within the MoF have a supporting role in the PPP Department: The Budget Office and the Department of Investment and Debt Management. These departments are involved in practically all projects and represent the government's interests in budgeting (taxation and spending) and overall government debt investments. They also advise in the formulation, execution and management of projects and ensure that government policy is followed.

Interactions between the PPP Department and other government institutions are usually determined on a project-by-project basis or when the other institutions are needed for the execution of the project. The MoF plays a critical role in examining the financial implications of PPP projects, as does the contracting authority—whether a national ministry or a local authority—which identifies, chooses and supervises the project. For example, OPPPI, a specialised office of the Ministry of Energy, has promoted electricity generation and transmission projects. Most energy projects are PPPs.

Processes

The general perspective of public sector stakeholders was that appraisal and approval processes for PPP projects have been transparent, although time remains a critical challenge. While some PPP processes may be time-limited, others have no time restriction. Extensions are also available, which can be problematic because some projects take years to approve. For the private party, this is costly and necessitates a time-bound appraisal and approval process. Project funding by multiple implementing agencies, with complex due diligence processes and procedures, makes this more difficult. As a result, many years have passed on some projects between presentation and acceptance. Due to the high expense of such protracted processes, private parties may be forced to borrow money to invest in other projects due to project delays.

Processes for project implementation could be made more efficient and effective by imposing time constraints at various stages, particularly when authorising a project. Each PPP stage or process should have a set time constraint to allow all processes to be completed and the PPP project implemented as quickly as feasible. Such deadlines help with resource mobilisation and boost the odds of completing a project. Time must be viewed as a valuable resource in any project. Though due diligence is required, the value of a private party's time spent evaluating projects while funds intended for the project are locked up must be considered. Private parties can fail to mobilise funds on time without explicit time constraints.

Quality control methods must also be improved to make the PPP process more efficient and effective. Projects are now frequently analysed or rated over three to four years. Project assessment and due diligence should include a time limit within which a project can be judged as a non-starter or given the go-ahead. Establishing and following prescribed processes and timelines at each level would make it easier to provide good value for money in PPP projects. There are situations when an extended assessment period is desired, but there must still be acceptable limits for both private and public sector parties.

Standardisation

To help evaluate and present project concepts or ideas, the PPP Department has developed templates for proposal writing, concept writing, feasibility studies and other PPP project documentation. Standard templates make gathering and presenting information more straightforward, allowing quick assessment and like-for-like comparisons when more than one private sector party presents a similar project. This also makes it easier to check details and request information, streamlining the process, and serves as a guide for preparing project proposals. Standard approaches and recommendations for assessing value-for-money, risk and fiscal effect are available. These have worldwide benchmarks that are comparable to those used in other jurisdictions.

This standardisation makes PPP initiatives easier to comprehend and implement. As a result, it is simple to apply for, compete for and implement PPP projects independent of the private party's origin. It also makes it easier for newcomers to understand both public and private parties' responsibilities in project implementation, evaluation and value.

Communication

There is no government communication plan for PPPs; consequently, the general public is unaware of the PPP implementation structure. For the most part, the general public believes that PPP initiatives are government projects and, as a result, is unaware of the private party's role. There is a need to disseminate information on projects that have been completed and those currently in process. The only regular communication from the government on PPPs concerns soliciting expressions of interest in pursuing a specific PPP initiative, which is directed to potential private investors rather than the general public.

The government should develop a communication strategy to bring private parties on board and ensure that the public knows the various responsibilities of government and commercial partners in PPP initiatives. Such a flow of information would enable people to understand and recommend PPP ventures.

Capacity

Training

Government employees in various ministries and departments involved in the PPP process can carry out PPP projects, albeit limited. The government has a training programme for officials that covers recent trends and best practices in conceptualising, appraising, negotiating, implementing and managing PPP contracts. Government officials, ministries and departments that act as contracting authorities have also received skill training complementing the skills at the PPP Department.

Several cooperating partners provide skills training or funds to improve skills among government employees. Training demand analysis can be conducted to identify where PPP skills in public sector institutions are insufficient or missing. Public-private Partnership Department

A permanent secretary heads the PPP Department within the MoF. The Budget Office and the Investment and Debt Management Department are in the same division as the PPP Department, providing additional support to the PPP Department and easing coordination. The PPP Department's role is to advise the government on policy decisions and project selection and implementation (conceptualising, selecting and categorising initiatives). According to PPP Act No. 14 of 2009, the PPP Department provides technical and best practice recommendations for PPP projects.

The PPP Department also evaluates proposed projects submitted to it and recommends to the contracting authority whether the project is affordable, delivers good value for money and efficiently transfers technical, operational and financial risks. It also keeps track of the competitive selection process and allows for proposal evaluation. The PPP Department also conducts due diligence on the private party to enable the PPP Council to make well-informed decisions. Following the PPP Department's guidance, the PPP Council chooses the project that provides the government with the best value for money and carries it out according to the PPP Department's recommendations. However, the involvement of ministers and other high-level government officials in non-policy-related decisions frequently contributes to bottlenecks in project pipelines. The lack of role delineation increases the likelihood that project selection will be susceptible to political discretion, corruption and other non-economic factors, reinforcing calls for the clear separation of responsibility or policymaking and policy implementation.²⁶

The government's consolidated fund supports the PPP Department, and its employees are permanent civil servants who are paid regular salaries. As a result, the personnel are well-versed and trained in the government system. The department's resources are allocated from the government's general revenues,

suggesting that the department, like any other government agency, has to compete for funds. This may make it challenging to make outlays for tasks such as feasibility studies, due diligence outside the country, capacity-building training, workshops and dialogue with the private sector.

Although the PPP Department might not have all the resources it needs, funding has improved to enable above-average results. With a consistent and adequate budget, the PPP Department can carry out all necessary engagements, feasibility studies and due diligence, resulting in better PPP recommendations. And while the PPP Department contributes valuable support to PPP initiatives, stakeholders have cited the failure of the PPP administration to evolve into a one-stop shop anchored in the PPP Department as a significant barrier to promoting PPPs in Zambia.

6. FUNDING AND MANAGING FISCAL RISKS FOR PUBLIC-PRIVATE PARTNERSHIPS

The Zambian government has supported PPPs primarily through equity, which it has accomplished through sponsor capital contributions and other shareholder cash, a reflection of the government's superior ability to provide a project with primary resources, such as land and other natural resources, that can be converted into equity. In PPPs, equity is a form of subordinate financing and, as a result, is a more effective risk financing tool than debt, necessitating larger yields. The government has previously also used loans to fund PPPs, borrowing money from various sources, including commercial lenders, export credit agencies, and bilateral and multilateral organisations or issuing bonds. Because debt repayment takes precedence over all other financing mechanisms under PPPs, project debt returns should ideally be lower than equity returns. Guarantees from banks are also regularly used.

According to most of the literature reviewed and the stakeholders interviewed, the government has been ineffective in recognising and managing financial risks connected with PPPs. Crucial project development processes, including feasibility studies, risk allocation and concession agreements, have frequently been overlooked by contracting authorities in Zambia. Risks are not allocated efficiently between the contracting authorities and the developer, making it difficult to attract developers. For example, cost escalations in some power projects have been borne by the government, as in the Kafue lower hydropower project, where cost escalations are making the affordability of its services a concern. Furthermore, insufficient project development and structuring capacities in the institutions charged with PPP responsibilities have reduced private sector interest and accentuated risk misallocation, mispricing and execution delays.²⁷

The government believes that PPPs provide better value than public sector initiatives aimed at similar service deliverables. At all stages of project development, achieving value for money is critical for the government. That implies that PPP contracts must explicitly describe the service outcome to be delivered by the private sector contractor, the degree of risk transfer and the financial implications for the government. Instead of optimising the transfer of project risks to the private investor, the government's risk allocation principle should be to maximise the benefits for people. In this case, risks would be assigned to the party best able to control and manage them to maximise the value for money. Applying this principle has aided in determining the most acceptable form of private sector involvement and responsibility allocation while also considering public interest protection.²⁸

Budgetary system

As a fiscal priority, PPPs have been included in Zambia's annual budgets to relieve the treasury of financial pressure and to leverage private sector participation in infrastructure projects to advance economic development. Furthermore, the executive has had the legislature's support for including funding in the budget for feasibility studies, which detail projects' expected costs and potential dangers. These costs and risks are effectively addressed in PPP contracts.²⁹

Although the government lacks a comprehensive PPP strategy that describes immediate, medium and long-term priorities, it does have a well-functioning financial framework capable of supporting multiyear financial commitments to infrastructure and PPPs. However, fiscal constraints have severely constricted the government's capacity to make such multiyear fiscal commitments. For example, the yellow book for 2021 allowed for the administrative financing of four out of all the PPP projects in the pipeline through the PPP Department and the OPPPI. PPPs are expected to advance the policy framework under the medium-term expenditure frameworks and Zambia's seventh strategic plan.

Project preparation funding

The PPP Department and most contracting authorities do not have the in-house expertise to identify and appraise viable PPPs, do financial modelling, negotiate contracts, monitor and evaluate PPPs and manage PPP contracts. The government could augment PPP skills by transferring staff among its institutions to fill skills gaps in the contracting authority. In some cases, however, the gap is too large, and the ability to draw additional resources from the other public sector bodies is limited by organisational challenges, contributing to the distress of several PPP projects.

The World Bank and the African Development Bank established facilities to help Zambia develop its PPP capacity and pledged

to provide additional assistance.³⁰ Other cooperating partners have provided critical support in implementing Zambia's PPP policy framework, providing money, material and expert guidance; facilitating training and sensitisation workshops and seminars; and connecting the process to other projects. Direct interaction with partners such as the World Bank and its related agencies, the Southern African Development Community (SADC) Banking Association, the Dutch Government, the Commonwealth Secretariat and the Commonwealth Business Council has also aided Zambia's PPP process.³¹ SADC and the Institute for Public–Public Partnerships have helped train government officials on PPPs.³²

Climate funding is a relatively new notion within Zambia's development finance framework. While the PPP framework does not explicitly call for climate finance, it does not specify any limitations on its use. Climate finance has been used to a limited extent to fund some community initiatives in Zambia, but it has yet to be used in PPP projects.

Stakeholders highlighted that financing feasibility studies for unsolicited project proposals place a massive risk on the private sector, a significant obstacle to developing PPPs. The PPP Department does not have adequate funds or staff to conduct feasibility studies. Feasibility studies require specialised skills, take a long time to complete and are very expensive. Without them, it is difficult to predict the probability of success of a PPP project. Stakeholders believe that assigning that risk to the private sector is not an acceptable solution. They called for de-risking the private sector by reassigning the public bodies' increasing capacity to identify projects and conduct feasibility studies.

Framework for government support

Section 2 of a recently developed feasibility study guideline evaluates different PPP options and guides the structuring of PPPs. The PPP options and structuring guidelines are further elaborated in Section 4. The last section discourages corporate financing structures, warns against capital contributions and lays out the parameters for using these financing structures. Section 31 of the PPP Amendment Act No.9 of 2018 mandates the review of technical proposals to determine the level of financial support expected from a Zambian contracting authority.

The feasibility study guideline outlines many financing options, including grants, debt and equity. The conditions are clear for deploying equity and grants but less for loans. Due to the country's budgetary constraints, the government has stated that national guarantees on PPP projects will no longer be available. Without a corresponding commitment to making the PPP market for services more competitive, that position exacerbates the problem of limited private sector engagement in PPP infrastructure and service projects.

The PPP framework outlines the roles and duties of the various entities involved in project evaluation and approval. In practice, however, the links between the entities are too weak to advance the conduct of project appraisals, as the PPP Department, "which was responsible for promoting and recommending the award of PPP projects to the Council, seemed to be taking on projects that were at an early stage, without going through the due diligence."³³ The framework for role differentiation exists but has not been fully implemented.

Framework for managing fiscal commitments and contingent liabilities

The need for MoF expertise to manage the financial implications of equity, guarantees and debt financing of PPPs was one of the rationales for establishing the PPP Department within the MoF, as recommended by the PPP Act and in line with international best practice. Public sector financial management standards and audits also govern the financial management of PPPs.

No comprehensive framework defines the institutions, processes and methodologies for assessing, measuring, monitoring and managing project-related fiscal obligations and contingent liabilities. The PPP Act established the PPP Council, whose secretariat is the Office of the Permanent Secretary in the MoF, and the PPP Technical Committee, chaired by a representative of the Permanent Secretary in the MoF. This arrangement comes closest to ensuring that the financial obligations and contingent liabilities of PPP projects are closely managed and monitored. This structure is supplemented by using a standard PPP proposal template and a feasibility study guideline that outlines project structure processes and methodologies and describes how to assess and measure fiscal commitments and contingent liabilities. The framework needs to be improved. Key informant interviews also revealed that developing a framework for managing fiscal commitments and contingent liabilities was in progress.

7. ACCESS TO FINANCE

There are various ways to fund PPP projects in Zambia, but the most common are equity, debt, syndication, bonds and bank guarantees. However, local currency financing for large PPP projects is scarce, and PPPs are funded primarily by development finance institutions and multilateral development banks. Corporate financing, local commercial banks and pension funds contribute very little.

The project finance market is not well developed in Zambia and may not be able to supplement the corporate financing market adequately. The equity market is similarly underdeveloped and is a riskier financing option than debt. Debt contributions accounted for more money invested in PPP projects than equity

contributions. Commercial banks were preferred over bonds and equity as long-term financing because of their flexibility in renegotiating loans and reacting to unforeseen events.

Various debt instruments are available, although the amounts are minimal. For example, the Itezhi-Tezhi Hydropower Corporation employed a combination of equity contributions to an SPV and senior debt from the Development Bank of Southern Africa and the African Development Bank to finance the project. India's Export and Import Bank provided additional financing as subordinated debt.

Long and suitable tenors are often provided by the principal sources of PPP funding, both local and external. However, project developers have often taken advantage of inadequate project evaluation capacities by extending the project tenors further than the financier was willing to offer. Credit enhancement and risk-mitigation products exist only to the extent that the financing market for PPPs can be defined. Government guarantees are now controlled by chapter 366 of the Loans and Guarantees (Authorisation) Act.

The disconnect between the government's investment priorities and the private sector's investment preferences impedes the private sector's ability to obtain finance for PPP projects. Furthermore, due to the long-term nature of PPP projects and their subordinated structure, Zambia's tiny stock market is a riskier investment alternative, making it substantially less appealing. Although the Lusaka Stock Exchange (LuSE) serves as both a primary and a secondary market for stock trading, transaction volumes are still modest, with little impact on PPP investment needs.

The Zambian PPP financing structure includes a bond market and its secondary market, the LuSE. The local debt market lacks the adequate depth to meet the massive PPP investment expectations. Government bonds dominate the local bond market, attracting a diverse range of domestic and international investors. The non-government bond market is supported primarily by government-owned organisations such as the Industrial Development Corporation (IDC), which serves as a holding company for all government-corporate interests but lacks depth. The IDC intended to trade its stocks and bonds on the LuSE, which would help to expand the local bond market. Due to the high cost of borrowing and the government's low creditworthiness, it is currently cheaper to issue bonds through the private sector than through the government.

International development finance institutions such as the *Financierings-Maatschappij voor Ontwikkelingslanden* (FMO), Chinese development banks and multilateral development banks such as the Africa Development Bank (AfDB) have played an essential role in Zambian PPP project financing. For example, **FMO and AfDB** used senior debt to fund the Itezhi-Tezhi hydropower project.

According to stakeholders, the current PPP regulatory framework is insufficient to attract long-term investors. Although there is a defined institutional structure for establishing, acquiring and implementing PPPs, PPP regulations and rules, according to some stakeholders, are incompatible with the philosophy of private capital because they allow the government to dominate the identification, structuring and risk allocation of PPPs. That preserves traditional public project mechanisms and makes PPPs less appealing to the private sector.

Portfolio limits on investing in specific asset categories are imposed on Zambian pension funds. For example, equities must account for at least 5 per cent of total assets (but no more than 70 per cent). Pension funds can be flexible, given the extensive range of investment ratios between the minimum and maximum. Infrastructure investments, like any asset class in pension fund portfolios, have imputable limits. There is still room for pension funds to grow their involvement in PPP project financing.

8. TRANSPARENCY AND DISCLOSURE

According to private contractors, developers, and government stakeholders, inadequate transparency and disclosure are among the most severe impediments to implementing PPPs. Neither the PPP Act nor the PPP Policy delineates transparency and accountability requirements. Inadequate transparency has resulted in inequity in the PPP process and delays in implementing PPP projects. The PPP Act fails to specify whether the PPP Department or the Auditor General's Office (AG) can audit a PPP in the public interest. The PPP Department is therefore impeded from auditing some PPPs even when legitimate reasons exist.

The AG is the government's highest auditing authority. It is required to undertake certification audits of statutory bodies and commissions, assess the activities of any state enterprise or statutory body as it deems appropriate and conduct special audit investigations at the president's request. The AG's enumerated powers do not specify auditing PPP projects. Nonetheless, under its remit to follow public financial management principles, the AG may examine any PPP as part of its authority to audit state enterprises or statutory entities.

The AG has the capabilities and resources to conduct audits of PPP projects. For example, the AG reported an Intelligent Mobility Systems audit in its 2018 report. A concession to finance, construct, operate and transfer an advanced road safety system to an SPV (Road Transport and Safety Agency) was cancelled because of implementation irregularities. For example, the Road Transport and Safety Agency amended the concession agreement to change the revenue-sharing ratio to favour the concessionaire and establish an escrow account for project

revenues without MoF permission. The Ministry of Justice advised that several parts of the agreement did not comply with the law.

The PPP Act establishes disclosure processes supplemented by the PPP evaluation guideline. The PPP Act specifies transparency procedures, such as open public bidding for PPPs and publication of the names of winning bidders. Using standard templates for PPP project technical proposals is another source of transparency in the PPP process. However, a clear framework is still needed for PPPs' financial, performance, and forensic audits.

9. PEOPLE-FIRST PUBLIC-PRIVATE PARTNERSHIPS

A value-for-money assessment evaluates the achievement of the best possible mix of project benefits and costs while providing optimal services to customers who need them. Many PPP projects require determining whether the project will provide better value to the public than regular public procurement. Often, that evaluation relies on the PPP project's financial model. However, a complete evaluation of value for money can only be done once a project has been completed, making it unsuitable for assessing whether a PPP proposal takes a people-first stance. Ordinarily, project initiatives that promise to provide expanded and equitable access to services for customers at a reasonable cost would score higher than those that do not. People-first PPPs essentially offer a significant advantage because they focus on accomplishing sustainable development goals rather than solely on delivering excellent value for money, which does not necessarily guarantee sustainability. As a result, it is suggested that Zambian PPP projects be evaluated using a people-first perspective rather than solely a value-for-money model.

The current PPP guidelines for Zambia emphasise value-for-money assessment and focus on improving project economic effectiveness. Thus, the economic impact of projects is currently being addressed, and adequate data is being collected to enable the replication of such projects under PPP initiatives. For example, the Kasumbalesa One-Stop Border Post (OSBP) project was taken over by the government and surrendered to the private operator only after months of operations

and impact evaluation. Among the evaluation was the project's social benefit to the local communities, given that the project contract does not permit border crossing operations within the OSBP's proximity.

In Zambia, PPP initiatives only directly engage stakeholders to examine the benefits and the costs if the stakeholder is a project-affected individual. Such an assessment is also valuable for determining the advantages of a project to the general public.

10. REGIONAL PUBLIC-PRIVATE PARTNERSHIPS

Zambia is willing to participate in cross-border initiatives. An example is the Kasomeno–Mwenda project, which involves Zambia and the Democratic Republic of the Congo (DRC) constructing a road and a river bridge, joining the countries. The Kasumbalesa One-Stop Border Post project is another regional PPP project. Regional projects are supported, but they are not prioritised.

Furthermore, no Programme for Infrastructure Development in Africa Priority Action Plan II—the related project has yet been chosen. The Kasomeno–Mwenda project introduced the notion of harmonising regulatory rules between countries to reap the benefits of a regional initiative.

The PPP Department has the human resources for regional projects, but financial resources may not be sufficient. This is especially the case for due diligence processes that necessitate cross-border travel. The Zambian government has been working with the DRC government to establish structures for the proposed cross-border projects, but proper planning and legislation are required. There is currently no formal process to work with regional economic communities.

11. ASSESSMENT OF OVERALL READINESS FOR PUBLIC-PRIVATE PARTNERSHIPS

Table 4 shows the results of an assessment of the overall readiness for public-private partnership projects in Zambia and lays out the priority areas for improvement.

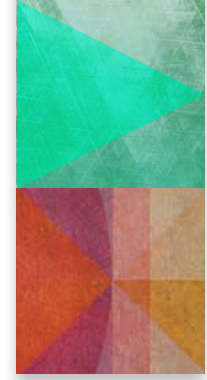
TABLE 4 Readiness Scorecard Summary

Theme	Readiness question	Yes	No	Priority		
				Low	Medium	Full
Background environment	Do the country's economic fundamentals and business climate facilitate successful PPPs?	✓		✓		
Experience with the PPP process	Does the government have successful experience implementing PPPs?	✓		✓		
Stakeholder support and ownership	Is there broad support for PPPs from the government, the public, the private sector and other key stakeholders?	✓				✓
PPP legal and regulatory framework	Does the existing framework facilitate successful PPPs? Are improvements needed in the PPP framework through amendments to existing legislation and regulations or additional legislation or guidelines?	✓				✓
PPP institutional capacity	Is there a second tier of PPP-related institutions and processes that facilitate the implementation of the law, regulations, rules and policies?	✓				✓
Funding and managing fiscal risk	Does the government provide funding support to PPPs through debt, equity, grants or guarantees? Does the government effectively identify and manage financial risk associated with PPPs?	✓				✓
Access to finance	Are project financing structures and sources available to support PPPs?	✓		✓		
Transparency and disclosure	Are PPP-related oversight, audit and disclosure procedures and institutions in place?	✓		✓		
People-first PPPs	Is the PPP legal, regulatory and institutional framework consistent with principles established by the United Nations Economic Commission for Europe International PPP Centre of Excellence regarding "people-first" PPP projects?		✓			✓
Regional PPPs	Is the government prepared to identify, develop and manage cross-border PPPs, Programme for Infrastructure Development in Africa Priority Action Plan II PPP projects and other regional PPPs involving benefits for multiple countries?	✓				✓



NOTES

1. GRZ 2021.
2. GRZ 2021.
3. UNDESA 2021.
4. World Bank national accounts data: GNI per capita, Atlas method (current US\$) – Zambia.
5. MoF 2021.
6. BoZ 2022.
7. BoZ 2022.
8. ZAMSTATS 2021, ZAMSTATS 2022.
9. MoF 2021.
10. IMF 2021.
11. GRZ 2021.
12. World Bank 2020b.
13. World Bank 2020a.
14. World Bank 2020a.
15. Tembo et al. 2020.
16. World Bank 2022.
17. Mwenda 2010.
18. WSUP 2017.
19. Mukela 2006.
20. Mukela 2006.
21. Mukela 2006.
22. Mukela 2006.
23. Muleya et al. 2019.
24. Dawson 2003; Easterly and Levine 2003; and Acemoglu and Robinson 2008.
25. GRZ 2009.
26. Anyan et al. 2016.
27. GRZ 2016.
28. Muleya, F B and Nalishebo, S. 2017.
29. GRZ 2016.
30. GRZ 2016.
31. Muleya et al. 2019.
32. Anyan et al. 2016.
33. GRZ 2016.



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