

**FONDS AFRICAIN DE DEVELOPPEMENT**



**BANQUE AFRICAINE DE DÉVELOPPEMENT**



**ZAMBIA - HIPC APPROVAL DOCUMENT - DECISION  
POINT UNDER THE ENHANCED FRAMEWORK\***

**NB : This document contains errata or corrigenda (see Annexes)**

**HIPC APPROVAL DOCUMENT FOR ZAMBIA:  
Decision Point under the Enhanced Framework**

## **1. INTRODUCTION**

1.1 The Boards of Directors approved the Bank Group's participation in the enhanced HIPC Initiative, on July 6, 2000. During this meeting, Management's proposal for the delivery modalities and financing arrangements were also approved. Accordingly, the Bank Group would provide its debt relief by releasing eligible countries from up to 80 percent of their annual debt service obligations until the total debt relief is delivered. Debt service delivery would commence at the decision point, with no more than 40 percent of HIPC assistance being provided during the interim period, viz., between the decision and completion points. Whenever possible, total debt relief will be provided within 15 years.

1.2 During their deliberations, the Boards of Directors took note of an earlier meeting of the Deputies of the African Development Fund on June 30, 2000 in Paris. At this meeting the Deputies endorsed the Bank Group's proposed delivery modalities and further agreed that the Bank Group has made the maximum effort in generating internal resources for the HIPC Initiative. The Deputies gave assurance to the Bank Group that they would meet the remaining financing gap to cover the full cost of the Bank's participation in the Initiative.

1.3 In December 2000, Zambia reached its decision point and the Boards of the IMF and World Bank approved US\$2.5 billion worth of debt relief in end-1999 net present value (NPV) terms under the enhanced HIPC Framework. This document invites the Boards to note the justifications for Zambia's qualification for HIPC assistance, and approve the proposed plan to finance the Bank Group's share of Zambia's costs. Section 2 of this document summarises details of Zambia's qualification, while the total debt relief is disaggregated in Section 3 to illustrate how the Bank Group's share of the HIPC costs have been derived. The Bank Group's operations are reviewed in Section 4, with particular emphasis on activities related to the Poverty Reduction Strategy Papers (PRSPs). Section 5 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 6. Recommendations for the Boards' consideration are contained in Section 7.

## **2. HIPC QUALIFICATION**

Zambia qualified for US\$2.5 billion worth of debt relief assistance, equivalent to 62.6 percent reduction in the country's outstanding stock of debt at end-1999 after full use of traditional debt relief mechanisms. The country reached its decision point in December, 2000, and is expected to reach its completion point by 2003 by fulfilling the following conditions:

- Preparation and implementation of a full PRSP for at least one year;
- Implementation of macroeconomic and structural reforms, in particular:
  - (i) Maintaining a stable macroeconomic environment as evidenced by satisfactory performance under a program supported by the IMF-supervised Poverty Reduction and Growth Facility (PRGF) arrangement;
  - (ii) Implementation of an Integrated Financial Management Information System (IFMIS) on a pilot basis for at least three ministries, and a medium term review of the pilot program;

- (iii) Restructuring and issuance of international bidding documents for the sale of a majority (controlling) interest in the power company, ZESCO;
- (iv) Issuance of international bidding documents for the sale of a majority (controlling) interest in the Zambian National Commercial Bank.
- Making progress in the implementation of sector strategies in education and health;
- Making concrete progress in combating HIV/AIDS; and introducing HIV/AIDS awareness and prevention programs in at least ten key ministries.

A copy of the relevant HIPC decision point document is annexed to this report.

### 3. HIPC COSTS

Bilateral creditors will account for US\$1.1 billion (46 percent) of Zambia's debt relief, Commercial Bank creditors for US\$ 23 million (1 percent), while multilateral creditors will deliver the remaining US\$1.3 billion (53 percent). The Bank Group's share of debt relief will amount to US\$146.05 million in 1999 NPV terms. In nominal terms, Bank Group assistance amounts to US\$218.87 million. Table 1 provides a breakdown of Zambia's total debt relief in NPV terms.

**Table 1. Breakdown of Zambia's HIPC Costs**

	US\$ million (End-1999 NPV)
<b>Total HIPC Debt Relief</b>	<b>2,499</b>
Bilateral Creditors	<b>1,145</b>
Multilateral Creditors	<b>1,331</b>
<i>Of which:</i>	
<i>African Development Bank Group</i>	<b>146</b>
<i>World Bank</i>	<b>488</b>
<i>IMF</i>	<b>602</b>
Commercial Bank Creditors	<b>23</b>

### 4. BANK GROUP INVOLVEMENT IN THE PRSP

4.1 The Interim PRSP (I-PRSP) for Zambia integrates policies to promote faster growth, improve the quality of social services as well as access to them, and policies to promote a more efficient public sector management. At the cross-sectoral level, the I-PRSP seeks to address problems relating to HIV/AIDS, the environment, human rights, and gender. Although the Bank Group was not directly involved in the preparation of the I-PRSP, its Country Strategy Paper for Zambia takes into account the Government's I-PRSP.

4.2 In addition, the Bank Group's Country Strategy Paper (CSP) for Zambia is based on consultations with the government, civil society including NGOs, and private and public sector

institutions. It also took into account Policy Framework Paper (PFP) and the absorptive capacities of the various sectors. The Bank Group's medium-term assistance strategy (1999-2001), focuses on poverty reduction through financing projects that would contribute to higher agricultural productivity, while ensuring the preservation of the natural environment, and improved social services (mainly education and health), and enhancing the access of vulnerable groups to these services. Other issues to be addressed by the Bank Group assistance strategy include: the rehabilitation of existing transport infrastructure, improvement of public utilities, increasing the efficiency of economic management through policy and institutional reforms to stimulate economic growth, and promotion of good governance.

4.3 The government of Zambia is embarking on the preparation of a full PRSP to fulfil the condition for reaching the completion point under the enhanced HIPC framework. The full PRSP will provide a more detailed and prioritized list of policy actions that are fully costed and compatible with available resources. In this context, the government has initiated a public expenditure review (PER) with IDA collaboration, and will contribute to the PRSP by analyzing the level and nature of expenditures to ensure that the poor have access to public services. The Bank Group plans to be actively involved in the process and would assist in the development of a co-ordinated approach for economic growth and poverty reduction in Zambia.

## **5. PROPOSED DELIVERY MODALITY**

5.1 As Zambia has reached its decision point, it is proposed that the Bank Group makes a commitment to provide interim debt relief between the decision and completion points, with effect from December 2000. Interim relief will not exceed 40 percent of the total NPV debt relief, and is expected to be delivered between 2000 and 2003. The Bank Group's debt relief would be provided by releasing Zambia from 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$146.05 million is delivered. The conditions that would trigger Zambia's floating completion point are outlined in Section 2. When the completion point is reached, the Bank Group will enter into an irrevocable debt relief commitment. Total debt relief will be delivered by end-2019, if the current proposals for providing debt service relief are approved by the Boards after Zambia reaches its completion point.

### **Legal Aspects of Debt Relief Operation**

5.2 Debt relief for Zambia is to be provided, under the enhanced framework of the HIPC Debt Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by a Debt Relief Agreement between the Bank Group and the government of Zambia; a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the government of Zambia; and, the Contribution Agreement between the Bank Group and the IDA. The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

## 6. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows:

	<i>Million US\$ end-1999 NPV</i>
Internal Resources	<b>29.21</b>
European Commission pledge	<b>58.42</b>
Balance with HIPC Trust Fund	<b>58.42</b>
<b>TOTAL</b>	<b>146.05</b>

## 7. RECOMMENDATIONS

The Boards are invited to:

1. Note the justifications for Zambia's qualification for HIPC assistance at its decision point, under the enhanced framework; and
2. Approve the plan to finance the Bank Group's share of HIPC debt relief, in accordance with the arrangements presented in Section 6.

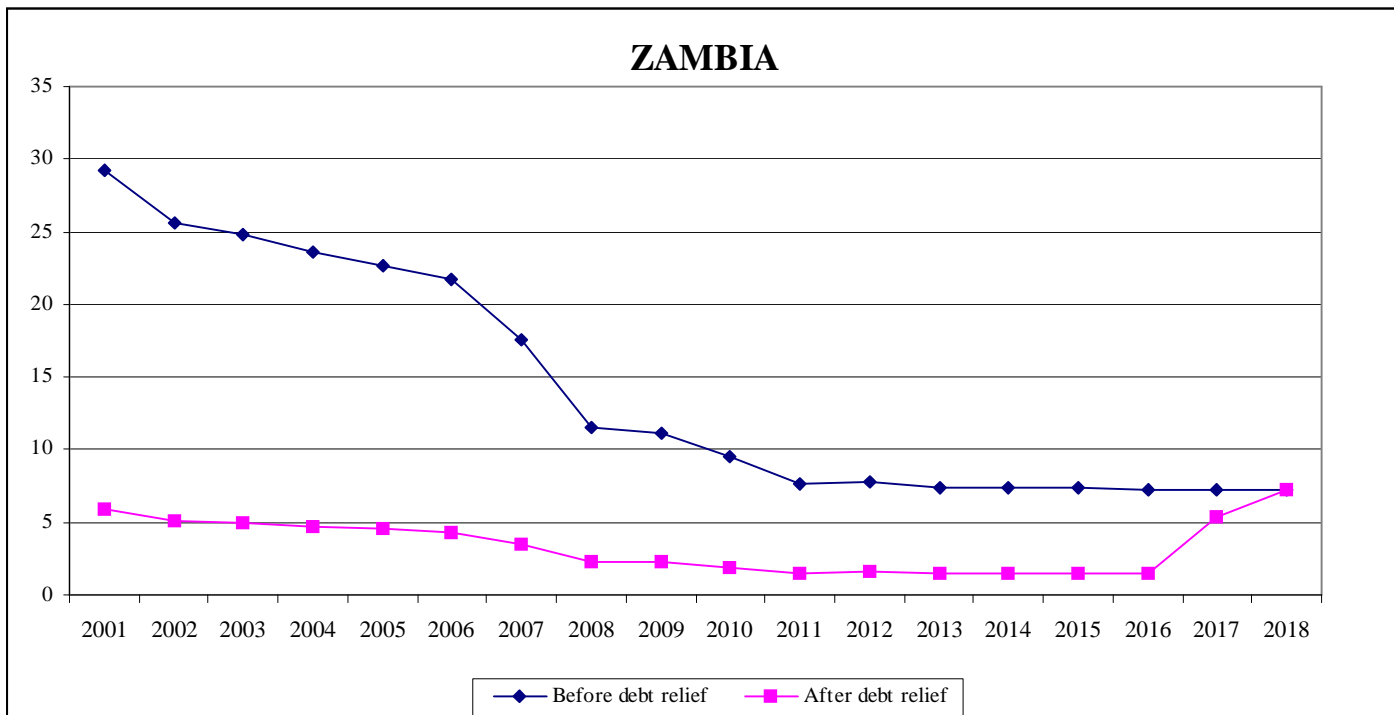
**IMF/ World Bank HIPC Document for**

**ZAMBIA**

# Annex

**ZAMBIA - HIPC APPROVAL DOCUMENT: DECISION POINT**  
**UNDER THE ENHANCED FRAMEWORK\***

**Impact of Debt Relief on Zambia's Bank Group Debt Service Profile**  
(in million US dollars)



**African Development Bank  
HIPC Debt Relief Schedule  
(in US dollars)**

**Zambia**

	<b>TOTAL ADB</b>	<i>TOTAL ADB and ADF Mill. \$</i>
2001	20.585	<b>23.373</b>
2002	17.395	<b>20.536</b>
2003	16.425	<b>19.808</b>
2004	15.467	<b>18.839</b>
2005	14.485	<b>18.090</b>
2006	13.515	<b>17.326</b>
2007	10.234	<b>14.042</b>
2008	5.010	<b>9.179</b>
2009	4.709	<b>8.896</b>
2010	2.716	<b>7.614</b>
2011	0.905	<b>6.119</b>
2012	0.506	<b>6.171</b>
2013	0	<b>5.918</b>
2014	0	<b>5.883</b>
2015	0	<b>5.847</b>
2016	0	<b>5.813</b>
2017	0	<b>1.923</b>
	<b>121.952</b>	<b>195.377</b>

**Summary**

Total Nominal Relief	US\$ 195.38 mn
<b>of which ADB</b>	<b>US\$ 121.95 mn</b>
Total NPV Relief	US\$ 146.05 mn
Duration	17 years

**African Development Fund  
HIPC Debt Relief Schedule  
(in US dollars)**

**Zambia**

	<b>TOTAL ADF</b>	<i>TOTAL ADB and ADF Mill. \$</i>
2001	2.788	<b>23.373</b>
2002	3.141	<b>20.536</b>
2003	3.384	<b>19.808</b>
2004	3.372	<b>18.839</b>
2005	3.605	<b>18.090</b>
2006	3.812	<b>17.326</b>
2007	3.808	<b>14.042</b>
2008	4.169	<b>9.179</b>
2009	4.187	<b>8.896</b>
2010	4.898	<b>7.614</b>
2011	5.214	<b>6.119</b>
2012	5.665	<b>6.171</b>
2013	5.918	<b>5.918</b>
2014	5.883	<b>5.883</b>
2015	5.847	<b>5.847</b>
2016	5.813	<b>5.813</b>
2017	1.923	<b>1.923</b>
	<b>73.427</b>	<b>195.377</b>

**Summary**

Total Nominal Relief	US\$ 195.38 mn
<b>of which ADF</b>	<b>US\$ 73.43 mn</b>
Total NPV Relief	US\$ 146.05 mn
Duration	17 years



**SUBJECT : ZAMBIA - HIPC APPROVAL DOCUMENT: DECISION  
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**CORRIGENDUM\***

**(Document approved by the Board on 31 January 2001)**

Please note that the cover memorandum to this document should have referred to the debt relief delivery period for **Zambia**, instead of “the three countries”.